



# **EXPOSURE DRAFT**

## **Permissible Equity Markets Investment Analysis**

**Prepared for  
The California Public Employees'  
Retirement System**

**January 2006**

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## **Permissible Equity Markets Investment Analysis and Recommendations**

### ***Introduction***

The purpose of this report is to review the various constraints, opportunities, and risks associated with investing in foreign capital markets. The specific goal of this analysis is to establish a framework for evaluating individual non-US public stock markets to assess their ability to support institutional investment. It is not intended to evaluate the current attractiveness of any individual market; that decision is delegated to the appropriate investment manager(s).

This analysis focuses on the emerging markets. An emerging country/market is classified by the World Bank as having a low or middle-income economy, regardless of its particular stage of development. Low and middle-income economies are currently defined as those with a 2004 gross national income (“GNI”) per capita below \$10,066. While all countries that fit this economic profile are considered emerging, not all are considered investable. This analysis evaluates the markets’ investability. However, for the purpose of this analysis, American Depositary Receipts (ADRs) or Global Depositary Receipts (GDRs), which are traded in approved markets, are permissible investments, provided that the issuer’s home market is permissible<sup>1</sup> as required by the CalPERS’ Investment Committee action in 2002.

### ***The Appeal of Emerging Markets Investing***

Economic growth is the reason for investing in the emerging markets, including superior relative expected returns and an expanding opportunity set for investment. Last year the emerging markets collectively out-performed their developed markets counterparts globally. Over time, many emerging markets have also undertaken wide-ranging institutional reforms, which have increased their appeal to foreign investors. These have included: stock exchange modernization; establishment of central clearing and settlement corporations and central depositories; establishment and empowerment of securities regulatory agencies; decreases in commission rates and other transaction charges; stricter accounting, auditing and information disclosure requirement; and establishment of insider trading rules.

Progress towards political openness in many countries has created governments that are more receptive to free market policies and increased foreign investment. Government officials realize that for the capital markets to develop, they must create an environment attractive to both domestic and foreign investors with safeguards in place to guarantee

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<sup>1</sup> ADRs and GDRs are “receipts” for securities of companies domiciled outside of the country where the securities are traded; i.e. Royal Dutch Shell, a Netherlands-based company, trades in the U.S. in ADR Form.

property rights and proficient settlement arrangements. Further, these countries and markets have developed more enlightened labor practices. A productive workforce, the CalPERS' Investment Committee believes, is a critical factor in economic growth and, ultimately, equity market success.

Wilshire believes that these markets provide an expanded opportunity set for investment and diversification. However, not all countries present meaningful opportunities for institutional investors. The potential for rapid growth is often offset by a high degree of risk associated with investing in developing countries<sup>2</sup>.

### ***Developed and Emerging Markets***

The developed and emerging markets are listed in Exhibits I and II, respectively. The list of developed countries has remained relatively stable over time. The most recent addition to this list is Greece, which was moved to "developed" status in 2001 after its inclusion in the European Monetary Union. Markets that are classified as developed are also deemed to be permissible for the purposes of this analysis and are not discussed further.

#### **Exhibit I Developed Global Equity Markets**

Australia	Japan
Austria	Luxembourg
Belgium	Netherlands
Canada	New Zealand
Denmark	Norway
Finland	Portugal
France	Singapore
Germany	Spain
Greece	Sweden
Hong Kong	Switzerland
Ireland	United Kingdom
Italy	United States

### ***Emerging Markets***

The list of emerging markets/countries reviewed in this report was drawn from the countries included in the emerging markets indices produced by the three major international equity market index publishers: Morgan Stanley Capital International, Standard & Poor's, and Financial Times. While all three publishers use some form of the World Bank definition of an emerging market, their emerging market country lists vary

<sup>2</sup> Wilshire made every effort to obtain current information, though this report is being prepared during a period of rapid change in many emerging markets.

from each other slightly. Exhibit II shows the complete list of emerging markets countries analyzed in this report, which is an amalgamation of the three publishers' 2005 country lists.

**Exhibit II**  
**Emerging Global Equity Markets**

Argentina	Israel	Russia
Brazil	Jordan	South Africa
Chile	Korea (South)	Sri Lanka
China	Mexico	Taiwan
Colombia	Malaysia	Thailand
Czech Republic	Morocco	Turkey
Egypt	Pakistan	Venezuela
Hungary	Peru	
India	Philippines	
Indonesia	Poland	

***Evaluation Methodology***

The permissible markets analysis has been conducted by Wilshire specifically for CalPERS since 1987 and has been periodically updated. The updates have reflected more recent data and changes in relevant factors as these markets have continued to evolve. In 1999, the CalPERS Investment Committee commenced a complete review of the analysis and looked to expand it since more information regarding countries and markets has become available. The analysis still reflects the fact that many factors contribute to the opportunities and risks of investing in the emerging markets.

The most significant change made in 1999 from previous years was that the CalPERS Investment Committee has delineated two broad sources from which risks in the emerging markets derive: Country factors and market factors. This change was first reflected in the 2002 report. Country factors pertain to the specific country as opposed to its capital markets. However, without strong country infrastructures to support the capital markets, the markets cannot truly be viable in the Investment Committee's view. The market factors pertain to market specific risks that determine whether the markets, themselves, can support institutional investment.

In the report produced in 2002, the number of factors was increased to eight from seven used in previous years. The past analyses contained two of what would now be categorized as country factors: country development and a very narrowly-defined political risk factor. After its review, the CalPERS Investment Committee eliminated country development as a relevant factor and instead included a *Transparency* factor and a *Productive Labor Practices* factor, which are defined later in this report. The CalPERS Investment Committee also expanded the political risk factor to encompass overall political stability of

which political risk is a part. Collectively, these factors are designed to evaluate the investability of these markets for institutional investors. The CalPERS Investment Committee, in recognition of the fast pace of change shall have this analysis completed annually.

The 2003 report reflected further changes. Specifically, the number of macro-factors was reduced back to seven from eight as two market factors in the 2002 report, Settlement Proficiency and Transactions Costs, were combined into one macro factor. While the equal weighting of country factors and market factors was preserved, the reduction in the number of market factors from five to four meant that the remaining four factors each received proportionally more weight.

The seven broad categories of factors (macro-factors) used from 2003 to 2006 to evaluate the risks of each country and its equity market are shown in Exhibit III.

**Exhibit III**  
**Country and Market Macro-Factors**

<u>Country</u>	<u>Market</u>
Political Stability	Market Liquidity and Volatility
Transparency	Market Regulation/Legal System/Investor Protection
Productive Labor Practices	Capital Market Openness
	Settlement Proficiency/Transaction Costs

Based on the factor definitions, Wilshire sought to identify credible third party sources that provided an evaluation of all or a specific part of a factor. In some cases, where appropriate, several sub-factors were identified and evaluated when the review of the third party sources indicated such to be most reflective of the intent of the factor definition.

To address the new or expanded country factors, CalPERS in two cases commissioned original research in 2001. This original research was conducted to determine the extent of monetary and fiscal transparency and productive labor practices. Oxford Analytica, Ltd. of

Oxford, England was selected to conduct the research on monetary and fiscal transparency, which is included as part of the broader *Transparency* factor. Verite of Amherst, MA, a non-profit research organization, was selected to conduct the research on *Productive Labor Practices*. These organizations shall also routinely update their research for CalPERS.

In 2002, Oxford Analytica's commission was expanded by CalPERS to update a portion of the *Market Regulation/Legal System/Investment Protection* macro-factor pertaining to *Shareholder and Creditor Rights* sub-factors. This information was reflected in the 2003 report.

As done in 2005, we have continued to refer to the websites of all of the individual stock exchanges of the emerging market countries for the *Stock Exchange Listing Requirements* sub-factor, the major master custodial banks and their respective securities dealers for the *Transactions Costs* sub-factor, and the major brokerage houses for updated information on *Settlement Proficiency*. We also e-mailed the respective local stock markets to verify Wilshire's findings for these sub-factors since these areas are rapidly changing. While we have received varying degrees of responses from the stock exchanges, our response rate increased from 2005, as the majority of the stock markets have responded this year.

### Factor Descriptions

The definitions of the seven current macro-factors are provided in this section of the report along with the sub-factors used to further refine and evaluate each macro-factor, where appropriate.

### **Country Factors**

1. Political Stability: Political stability, including progress towards the development of basic democratic institutions and principles, such as guaranteed elimination of human rights violations (such as torture), and a strong and impartial legal system, all of which are necessary to ensure political stability, support free market development, and attract and retain long-term sources of capital. This macro-factor shall include the following sub-factors:
  - a) Civil Liberties: The extent to which countries permit freedom of expression, association and organizational rights, rule of law and human rights, free trade unions and effective collective bargaining, personal autonomy and economic rights. A score of 3.0 (highest) means that a country has relatively good civil liberties and a score of 1.0 (lowest) means they are poor.
  - b) Independent Judiciary and Legal Protection: The extent to which countries have independent judiciaries, the degree to which or the absence of irregular payments made to the judiciary and the extent to which there is a trusted legal framework that honors contracts and clearly delineates ownership of and protects financial assets. A score of: 1.0 (lowest) to 3.0 (highest) is used where the higher score indicates greater overall legal protection.
  - c) Political Risk: The extent to which there exists government stability, a high quality of socioeconomic conditions, and a positive investment profile. Toward these ends this sub-factor evaluates the extent of internal and external conflict, corruption, the military and religion in politics, law and order, ethnic tensions, democratic accountability and bureaucratic quality. A score of 1.0 (lowest) to 3.0 (highest) is used where the highest score means less overall political risk exists in that country.
2. Transparency: Financial transparency, including elements of a free press necessary for investors to have truthful, accurate and relevant information on the conditions in the countries and companies in which they are investing. This macro-factor shall include the following sub-factors:
  - a) Freedom of the Press: The structure of the news delivery system in a country and the laws and their promulgation with respect to their influence

of the news, the degree of political influence and control, economic influences on the news and the degree to which there are violations against the media with respect to physical violations and censorship. A score of 3.0 means the press in a country is free and a score 1.0 means it is not free<sup>3</sup>.

- b) **Monetary and Fiscal Transparency:** The extent to which governmental monetary and fiscal policies and implementation are publicly available in a clear and timely manner, in accordance with international standards. A score of 1.0 (lowest) to 3.0 (highest) is used where the higher score indicates the greatest transparency.
  - c) **Stock Exchange Listing Requirements:** This sub-factor evaluates the stringency of stock exchange listing requirements for public companies with respect to frequency of financial reporting, the requirement of annual independent audits and minimum financial viability. A score of 3.0 means the listing requirements are most stringent, and a score of 1.0 means they are the least stringent.
  - d) **Accounting Standards:** The extent to which publicly traded companies in the country utilize either US GAAP (Generally Accepted Accounting Principles) or IAS (International Accounting Standards) in financial reporting, and whether the country is a member of the International Accounting Standards Council. A score of 1.0 to 3.0 is used where 1.0 means IAS or US GAAP standards are not used and 3.0 (highest) means either IAS or US GAAP is used for financial reporting.
3. **Productive Labor Practices:** To facilitate economically-productive labor practices, markets shall be evaluated based on their ratification of and adherence to the International Labor Organization's (ILO) principles, which cover labor rights and prohibitions on abusive labor practices, and the degree of effectiveness of implementation through relevant laws, enabling regulations and their degree of enforcement through the judiciary process. This macro-factor shall have the following sub-factors<sup>4</sup>:
- a) **ILO Ratification:** The extent to which the country has ILO ratification for the eight core conventions. Each country will be graded on:
    - 1) Ratified
    - 2) Pending ratification
    - 3) Not ratified
    - 4) Denounced
  - b) **Quality of Enabling Legislation:** Countries shall be evaluated on whether laws exist that explicitly protect the right described in the ILO

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<sup>3</sup> Freedom House.

<sup>4</sup> Verite.



Convention, or portions of it, or whether laws exist that explicitly prohibit the Convention right, or portions of it. The objective is to evaluate fundamentally, how well the right described in the convention is protected by the law. For each law, in addition to identifying if the law exists, any shortcomings in its adequacy or completeness with reference to the relevant ILO convention shall be evaluated, along with information about the regulations that implement the relevant laws.

- c) **Institutional Capacity:** The governmental administrative bodies with enforcement responsibility for enforcing labor law that exists at the national, regional and local level.
- d) **Effectiveness of Implementation:** The procedures that exist for enforcement and monitoring of enforcement of laws in the convention areas and evidence that exists that these procedures are working effectively; the existence of a clear grievance process; evidence that workers and/or unions utilize this grievance process; the extent to which penalties provided for in the laws are levied; and the evidence that penalties have deterrence value.

The sub-factor scores total to a maximum of 40 points per country. The sub-factors are more heavily-weighted toward the quality of enabling legislation and the effectiveness of implementation. The *Productive Labor Practices* factor scores have been rescaled on a 1.0 (lowest) to 3.0 (highest) basis, where a score of 3.0 indicates the most effective labor practices.

## Market Factors

- 4. *Market Liquidity and Volatility:* This segment measures the ability to buy or sell assets in a country in a timely manner without adversely affecting security prices. Also included in this category is an analysis of each country's stock market return volatility, including currency risk. Sub-factors under consideration for this category are listed below.
  - a) **Market Capitalization:** Market capitalization represents the overall size of a country's stock market. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of market capitalization (i.e., larger market).
  - b) **Change in Market Capitalization:** This factor represents the growth of a country's stock market over the last five years. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of market capitalization growth.

- c) **Average Monthly Trading Value:** This factor represents the average dollar value of shares traded, relative to the size of each market (i.e., market capitalization). A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of trading.
  - d) **Growth in Listed Companies:** This factor represents the number of companies in each country that are publicly traded and are listed on a local stock exchange and their growth over the last five years. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting the growth of listed companies.
  - e) **Market Volatility (as measured by standard deviation):** This factor represents the level of return volatility (risk) over the last five years in each country's stock market, attributable to both currency volatility and local market volatility. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a lower level of volatility.
  - f) **Return/Risk Ratio:** This factor represents the percentage of total return achieved per percentage of risk in each market<sup>5</sup>. This category was created so as not to penalize those markets that display a high level of positive volatility. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher return/risk ratio.
5. ***Market Regulation/Legal System/Investor Protection:*** This category analyzes a broad set of factors that together comprise a large portion of the investment climate within a country. This category attempts to identify the degree of legal protection for foreign investors within a country, as well as shareholder and creditors' rights. The following sub-factors are analyzed:
- a) **Adequacy of Financial Regulation:** A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting greater financial regulatory and supervisory stringency.
  - b) **Bankruptcy/Creditors' Rights:** This segment reflects the adequacy of creditors' rights in each market, in the case of bankruptcy proceedings/reorganization. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of creditors' rights.
  - c) **Shareholders' Rights:** This segment reflects the adequacy of shareholders' rights in each market. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting stronger regulations regarding shareholders' rights.

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<sup>5</sup> Risk is defined as the standard deviation of returns.

6. Capital Market Openness: Openness to foreign investment is a critical barometer of a government's commitment to free market policies. Markets are viable if they have the ability to attract and retain long-term sources of capital. Further, markets are evaluated based on the level of restriction imposed on foreign investors. The following sub-factors are evaluated:
- a) Trade Policy: This sub-factor measures the degree to which there is oppressive government interference in free trade through deterrents such as trade barriers and punitive tariffs.
  - b) Foreign Investment: This sub-factor examines governmental barriers to the free flow of capital from foreign sources through the imposition of restrictions on foreign ownership of local assets, repatriation restrictions and un-equal treatment of foreigners and locals under the law.
  - c) Banking and Finance: This sub-factor looks at undue government control of banks and financial institutions and measures such factors as government ownership of banks and allocation of credit and the degree of freedom financial institutions have to offer all types of financial services, securities and insurance policies. Protectionist banking regulations against foreigners are also evaluated.
  - d) Stock Market Foreign Ownership Restrictions: This sub-factor examines the extent to which the local stock market restricts share ownership of public companies by foreigners. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a higher level of market openness.
7. Settlement Proficiency/Transaction Costs: Cost effective, efficient settlement of securities transactions is critical as the world moves to one-day settlement. This factor measures the degree of efficiency and the cost effectiveness of transacting in the markets included in this analysis.
- a) Settlement Proficiency: This segment illustrates whether a country's trading and settlement is automated and measures the success of the market in settling transactions in a timely, efficient manner. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting an automated, efficient operational process.
  - b) Transaction Costs: This segment measures the costs associated with trading in a particular market and includes stamp taxes and duties, amount of dividends and income taxed, and capital gains taxes. High trading costs tax the returns and increase the hurdle rate of managers investing in these markets. Markets that impose a high level of taxes, or have a high level of trading costs, receive a low score. A score of 1.0 (lowest) to 3.0 (highest) is assigned, with higher scores reflecting a lower level of transaction costs. *Please note that transaction costs*

*relating to market impact associated with liquidity is reflected in the first category: Market Liquidity/Volatility.*

### **Scoring**

The analysis has been conducted on a “relative” basis with a goal toward sorting the countries from the most able to support institutional investment to the least. In most cases the third party source utilized a specific scoring methodology that, too, yielded a relative rank. Where needed, Wilshire rescaled third party scores to a three point system, where a score of 1.0 represents the least established, least able to support institutional investment and a score of 3.0 represents the most established, most able to support institutional investment. In this manner, factor scores were then comparable and ultimately combinable for weighting to a total country/market score.

The country factors comprise a 50% total weighting and the market factors comprise the other 50%. Since there are only three country factors proportionally, each of them receives greater weight in the total analysis than the market factors, of which there are four. Within the country segment, the three macro-factors were exactly equal-weighted, as were the market factors. The weighted average sum of the macro-factor scores represents the overall evaluation of the country/market. This weighting scheme was adopted by the Investment Committee and codified in the investment policy document included herein. The macro-factors and weights are listed in Exhibit IV.

**Exhibit IV  
Macro-Factor Weights**

	<b>Category</b>	<b>Assigned Weight</b>
1	Political Stability	16.7%
2	Transparency	16.7
3	Productive Labor Practices	16.7
4	Market Liquidity and Volatility	12.5
5	Market Regulation/ Legal System/ Investor Protection	12.5
6	Capital Market Openness	12.5
7	Settlement Proficiency/Transaction Costs	12.5

The 2006 analysis reflects two changes relating to scoring methodology that the CalPERS Investment Committee approved in 2005. The first change affects the macro- and sub-factors, while the second affects the total country scores. In the past, all of the macro- and sub-factors were evaluated on a whole-number rating scale, where a country was assigned scores of 1, 2, or 3. However, starting with the 2006 analysis, all of the macro- and sub-factors were evaluated on a 1-decimal place rating system, where a specific sub-factor for a country could be assigned a score of 3.0, 2.7, 2.5, etc. To implement this methodology change, Wilshire had to define more narrowly the scoring breakpoints for most macro- and sub-factors, while some factors (such as Sub-factor 2a – Freedom of the Press, where

countries are Free, Partially Free or Not Free) were not affected. In addition, the country factors, which were originally rounded to 2 decimal places in previous reports, are now rounded to 1 decimal place.

The impact of these two changes was previewed in the 2005 report. The analysis showed that moving the macro- and sub-factors to a 1-decimal place rating scale had an average impact of -0.02 to a country's total score. While the impact per country overall was minimal, the two observations made were that 1) the higher-rated countries generally experienced a lower 1-decimal place score (8 of the top 9 countries experienced a drop in their country score) and 2) the lower-rated countries generally experienced a higher 1-decimal place score (8 of the bottom 9 countries experienced a rise in their country score). This impact is explained by the fine-tuning of the scoring breakpoints, which caused those countries that were on the borderline of receiving a certain whole-number score to receive a lower or higher 1-decimal place score. The results for the rest of the countries were mixed.

Rounding the total country scores to 1-decimal place had less of an overall impact on the countries. If anything, rounding to 1-decimal place would help those countries with total scores in the 1.95 to 1.99 range make the Permissible Markets List by rounding up to 2.0. While this change did not affect the 2005 Permissible Markets List, it did benefit four countries (namely, Argentina, India, Malaysia, and Turkey) in the 2006 analysis. The impact analysis from 2005 is included in the Appendix of this report for reference purposes.

Based on the weights shown in Exhibit IV a summary table that ranks the countries on a three-point scale is shown in Exhibit V. The support for the evaluations presented in Exhibit V is provided in the Appendix. The Appendix provides the raw evaluations used by the third party sources for each sub-factor. The countries were each scored based on their relative attractiveness for that sub-factor. The sub-factors were then aggregated into macro-factor scores, which were then weighted to total scores for the countries in the analysis. Exhibit VI ranks the markets separately on their country scores and their market scores.

### Exhibit V Overall Summary

		Country Factors			Market Factors					
		(1)	(2)	(3)	(4)	(5)	(6)	(7)		
		Factors	Weights	Subtotal Weights	Factors	Weights	Subtotal Weights	Factors		
		Political Stability	Transparency	Productive Labor Practices	Market Liquidity and Volatility	Market Regulation/ Legal System/ Investor Protection	Capital Market Openness	Settlement Proficiency/ Transaction Costs		
		Score	Score	Score	Score	Score	Score	Score	2006 Score	Cumulative Mkt Cap as a % of Total Mkt Cap*
1	Hungary	2.7	2.7	3.0	2.7	2.3	2.7	3.0	2.7	0.96%
2	Poland	2.7	2.7	3.0	2.7	2.3	2.7	2.0	2.6	2.79%
3	Chile	3.0	2.7	2.3	2.7	2.7	2.7	2.0	2.6	5.40%
4	Czech Republic	2.7	2.7	2.7	2.7	1.7	3.0	2.3	2.6	6.52%
5	Taiwan	3.0	2.7	2.0	3.0	2.3	2.7	2.0	2.5	19.53%
6	South Korea	2.3	3.0	2.3	3.0	3.0	2.0	2.0	2.5	36.54%
7	Israel	2.0	2.7	2.7	2.3	2.7	2.7	2.3	2.5	39.17%
8	South Africa	2.0	3.0	2.3	2.7	2.7	2.3	1.7	2.4	48.49%
9	Brazil	1.7	2.7	1.7	2.7	2.3	1.7	3.0	2.2	58.94%
10	Mexico	2.0	2.3	2.0	2.7	2.0	2.0	2.7	2.2	65.41%
11	Jordan	2.0	2.3	1.7	3.0	1.0	2.3	3.0	2.2	66.34%
12	Thailand	1.7	2.3	1.7	3.0	2.3	1.7	2.7	2.2	69.07%
13	Peru	1.3	2.3	2.3	2.7	1.7	2.3	2.7	2.2	69.28%
14	Philippines	1.3	2.7	2.0	2.0	3.0	1.7	2.3	2.1	69.99%
15	Indonesia	1.7	2.3	1.3	2.7	2.3	2.0	2.3	2.0	71.48%
16	Argentina	1.7	2.3	2.7	1.7	2.0	2.0	1.3	2.0	72.26%
17	Turkey	1.7	2.3	1.7	2.0	1.7	2.3	2.3	2.0	75.83%
18	India	1.7	2.7	1.0	3.0	2.3	1.0	2.3	2.0	88.03%
19	Malaysia	2.3	2.3	1.0	3.0	2.0	1.3	2.0	2.0	91.98%
20	Morocco	1.7	2.0	1.3	2.7	2.0	2.0	2.0	1.9	92.40%
21	Russia	1.0	2.0	1.7	3.0	2.0	1.3	2.3	1.9	97.65%
22	Pakistan	1.0	1.7	1.0	3.0	2.3	1.7	2.7	1.8	97.97%
23	Egypt	1.3	1.7	1.7	2.3	1.3	1.7	3.0	1.8	98.93%
24	Sri Lanka	1.3	2.0	1.7	2.3	1.7	1.7	2.0	1.8	99.00%
25	Colombia	1.3	1.7	1.7	2.7	2.0	2.3	1.0	1.8	99.73%
26	China	1.3	1.3	1.0	3.0	1.7	1.3	2.0	1.6	99.92%
27	Venezuela	1.0	1.7	2.0	1.3	1.0	1.7	2.0	1.5	100.00%

\* FTSE was the source of the market capitalization values used in this column for most of the countries in this analysis. IFC's market capitalization values were used for Jordan, Sri Lanka, and Venezuela, as these countries are not included in the FTSE All World All Emerging Markets Index. All values are as of December 31, 2005.

## Exhibit VI

### Separate Country Factor and Market Factor Ranks

<u>Country Factor Ranks</u>	<u>Market Factor Ranks</u>
1 Hungary	1 Hungary
2 Poland	2 Chile
3 Czech Republic	3 Israel
4 Chile	4 South Korea
5 Taiwan	5 Taiwan
6 South Korea	6 Brazil
7 Israel	7 Czech Republic
8 South Africa	8 Pakistan
9 Argentina	9 Poland
10 Mexico	10 Thailand
11 Brazil	11 Mexico
12 Philippines	12 Peru
13 Jordan	13 South Africa
14 Peru	14 Indonesia
15 Thailand	15 Jordan
16 Turkey	16 Philippines
17 Malaysia	17 Morocco
18 India	18 India
19 Indonesia	19 Russia
20 Morocco	20 Egypt
21 Sri Lanka	21 Malaysia
22 Colombia	22 Turkey
23 Egypt	23 China
24 Russia	24 Colombia
25 Venezuela	25 Sri Lanka
26 Pakistan	26 Argentina
27 China	27 Venezuela

Exhibit VI shows that the markets rank differently on the total of their country factor scores versus the total of their market factor scores.

### *Impact from Last Year*

To assess the changes from last year, Exhibit VII provides a comparison of this year's scores versus those from 2005. As in previous reports, Wilshire highlighted those scores that changed from the previous year (with blue indicating an increase in score and yellow indicating a decrease). However, due to the methodology change, Wilshire only highlighted those macro- and sub-factors that moved greater than 0.5. This color code is used throughout the balance of the report. Please note that the 2006 total country scores are calculated to more than 1-decimal place, but merely rounded that way. The 2005 scores were similarly treated and are rounded to 2 decimal places. Therefore, subtracting the 2005 2-decimal place scores from the 2006 1-decimal place scores as shown in Exhibit VII will not always equal the "Difference" figures because of rounding.

## Exhibit VII Macro-Factor Comparison

Factors	Country Factors						Market Factors										
	(1)		(2)		(3)		(4)		(5)		(6)		(7)				
	Weights		16.7%		16.7%		12.5%		12.5%		12.5%		12.5%		100%		
	Subtotal Weights				50%								50%				
	Political Stability		Transparency		Productive Labor Practices		Market Liquidity and Volatility		Market Regulation/ Legal System/ Investor Protection		Capital Market Openness		Settlement Proficiency/ Transaction Costs		Wilshire Score		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	Difference
1 Argentina	1.7	2	2.3	2	2.7	3	1.7	1	2.0	2	2.0	2	1.3	2	2.0	2.04	-0.05
2 Brazil	1.7	2	2.7	3	1.7	2	2.7	2	2.3	2	1.7	2	3.0	3	2.2	2.29	-0.06
3 Chile	3.0	3	2.7	3	2.3	2	2.7	3	2.7	3	2.7	3	2.0	2	2.6	2.71	-0.11
4 China	1.3	2	1.3	1	1.0	1	3.0	3	1.7	2	1.3	1	2.0	2	1.6	1.67	-0.07
5 Colombia	1.3	1	1.7	2	1.7	1	2.7	2	2.0	2	2.3	2	1.0	2	1.8	1.67	0.12
6 Czech Republic	2.7	3	2.7	3	2.7	3	2.7	3	1.7	2	3.0	3	2.3	2	2.6	2.75	-0.19
7 Egypt	1.3	1	1.7	1	1.7	1	2.3	3	1.3	1	1.7	2	3.0	3	1.8	1.63	0.20
8 Hungary	2.7	3	2.7	3	3.0	3	2.7	3	2.3	2	2.7	3	3.0	3	2.7	2.88	-0.14
9 India	1.7	2	2.7	3	1.0	1	3.0	3	2.3	3	1.0	1	2.3	3	2.0	2.25	-0.28
10 Indonesia	1.7	1	2.3	2	1.3	1	2.7	3	2.3	3	2.0	2	2.3	2	2.0	1.92	0.13
11 Israel	2.0	2	2.7	2	2.7	3	2.3	2	2.7	3	2.7	3	2.3	3	2.5	2.54	-0.06
12 Jordan	2.0	2	2.3	2	1.7	2	3.0	3	1.0	1	2.3	3	3.0	3	2.2	2.25	-0.09
13 Malaysia	2.3	2	2.3	3	1.0	1	3.0	3	2.0	2	1.3	1	2.0	3	2.0	2.13	-0.15
14 Mexico	2.0	2	2.3	3	2.0	1	2.7	3	2.0	2	2.0	2	2.7	3	2.2	2.25	-0.03
15 Morocco	1.7	2	2.0	1	1.3	1	2.7	2	2.0	2	2.0	2	2.0	3	1.9	1.79	0.13
16 Pakistan	1.0	1	1.7	1	1.0	1	3.0	3	2.3	2	1.7	1	2.7	3	1.8	1.63	0.20
17 Peru	1.3	1	2.3	2	2.3	2	2.7	3	1.7	2	2.3	3	2.7	3	2.2	2.21	-0.05
18 Philippines	1.3	1	2.7	3	2.0	2	2.0	2	3.0	3	1.7	1	2.3	2	2.1	2.00	0.13
19 Poland	2.7	2	2.7	3	3.0	3	2.7	3	2.3	3	2.7	3	2.0	2	2.6	2.71	-0.10
20 Russia	1.0	1	2.0	2	1.7	1	3.0	3	2.0	2	1.3	1	2.3	3	1.9	1.79	0.07
21 South Africa	2.0	3	3.0	3	2.3	2	2.7	3	2.7	2	2.3	3	1.7	1	2.4	2.46	-0.07
22 South Korea	2.3	3	3.0	3	2.3	2	3.0	3	3.0	3	2.0	2	2.0	2	2.5	2.58	-0.07
23 Sri Lanka	1.3	2	2.0	2	1.7	2	2.3	3	1.7	2	1.7	2	2.0	1	1.8	2.00	-0.20
24 Taiwan	3.0	3	2.7	3	2.0	2	3.0	3	2.3	3	2.7	3	2.0	2	2.5	2.71	-0.18
25 Thailand	1.7	2	2.3	3	1.7	1	3.0	3	2.3	2	1.7	1	2.7	3	2.2	2.13	0.04
26 Turkey	1.7	2	2.3	2	1.7	2	2.0	3	1.7	1	2.3	2	2.3	3	2.0	2.13	-0.14
27 Venezuela	1.0	1	1.7	2	2.0	2	1.3	1	1.0	1	1.7	1	2.0	2	1.5	1.46	0.08



Generally countries' scores improved over the last five years. In the 2002 report, the final scoring ranged from a high of 2.63 out of a possible 3.00 to a low of 1.15. The 2003 scores ranged from a high of 2.75 to a low of 1.25. The 2004, 2005, and 2006 scores were in a similar range. The final 2004 scores ranged from a high of 2.83 to a low of 1.50, while the 2005 scores ranged from a high of 2.88 to a low of 1.46. The 2006 scores ranged from a high of 2.7 to a low of 1.5.

Exhibit VIII below shows the change in total scores from 2005 to 2006, ranked by the level of change over the year. Of the 27 countries, 9 countries had higher scores, while 18 countries had lower scores. Pakistan and Egypt made the biggest improvement during the year, while India and Sri Lanka fell the most precipitously.

### Exhibit VIII Total Score Comparison

		<b>Total Score</b>		
		<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>Difference</u></b>
1	Pakistan	1.8	1.63	0.20
2	Egypt	1.8	1.63	0.20
3	Indonesia	2.0	1.92	0.13
4	Morocco	1.9	1.79	0.13
5	Philippines	2.1	2.00	0.13
6	Colombia	1.8	1.67	0.12
7	Venezuela	1.5	1.46	0.08
8	Russia	1.9	1.79	0.07
9	Thailand	2.2	2.13	0.04
10	Mexico	2.2	2.25	-0.03
11	Argentina	2.0	2.04	-0.05
12	Peru	2.2	2.21	-0.05
13	Israel	2.5	2.54	-0.06
14	Brazil	2.2	2.29	-0.06
15	South Africa	2.4	2.46	-0.07
16	South Korea	2.5	2.58	-0.07
17	China	1.6	1.67	-0.07
18	Jordan	2.2	2.25	-0.09
19	Poland	2.6	2.71	-0.10
20	Chile	2.6	2.71	-0.11
21	Hungary	2.7	2.88	-0.14
22	Turkey	2.0	2.13	-0.14
23	Malaysia	2.0	2.13	-0.15
24	Taiwan	2.5	2.71	-0.18
25	Czech Republic	2.6	2.75	-0.19
26	Sri Lanka	1.8	2.00	-0.20
27	India	2.0	2.25	-0.28

The most significant improvement in country development was in *Productive Labor Practices*. Within this macro-factor, we saw the biggest improvement in the implementation of labor practices. This change is an indication of the further development of these markets. In addition, there has also been an increase in taxes on capital gains in several of the markets. Although the increased taxes have a negative impact on the overall scores of these countries, this is a sign of the continued maturation of these emerging markets, as many of the developed markets charge these taxes for use in other areas.

### ***Impact to Performance and Sector Weights***

Since the implementation of the new emerging markets' permissible country policy, the impact to performance and other characteristics can now be assessed. Exhibit IX shows the impact to sector weights between the full complement of countries contained in the unconstrained Financial Times Stock Exchange (FTSE) All Emerging Markets Equity Index and the Custom CalPERS FTSE All Emerging Markets Index, which is limited to those countries that scored above the 2.00 threshold in the 2005 analysis. The remaining countries, which totaled roughly 10% of the available market capitalization<sup>6</sup> of the emerging equity markets, were not permitted.

#### **Exhibit IX Index Sector Allocation Comparison December 31, 2005**

<b>Sector</b>	<b>CalPERS- FTSE All Emerging Index</b>	<b>Standard FTSE All Emerging Index</b>	<b>Difference</b>
BASIC INDUSTRIES	11.44	11.26	0.18
CYCLICAL CONSUMER GOODS	4.01	3.78	0.24
CYCLICAL SERVICES	6.57	6.32	0.25
FINANCIALS	21.32	21.36	-0.03
GENERAL INDUSTRIALS	7.72	7.01	0.71
INFORMATION TECHNOLOGY	16.09	14.30	1.79
NON-CYCLICAL CONSUMER GOODS	6.80	6.27	0.53
NON-CYCLICAL SERVICES	10.55	10.56	-0.02
RESOURCES	12.29	15.72	-3.43
UTILITIES	3.21	3.42	-0.21
<b>Totals</b>	<b>100.00</b>	<b>100.00</b>	

The effect to sector weights is significant as the CalPERS' benchmark, as it is currently structured, has had and will have greater sensitivity to stock market swings. There was a definite reduction in exposure to the non-discretionary areas of the economy like resources and utilities, with an increased exposure to technology and general industrials.

<sup>6</sup> Source: Wilshire Associates, FTSE, MSCI, IFC.

Exhibit X below shows the impact to performance for the period the permissible country policy has been in effect (April 1, 2002 to December 31, 2005). During this period, the Custom CalPERS FTSE All Emerging Markets Index underperformed the Standard FTSE Index by 2.2% on an annualized basis. In addition, this policy had an overall negative impact on performance of 2.1% when comparing CalPERS' external emerging markets managers to each one's fully discretionary investment results on a gross-of-fees basis. However, the level of discrepancy in the manager performance has decreased over the last few years.

### Exhibit X Impact to Performance Results

#### Custom CalPERS vs. Standard FTSE All Emerging Markets Index

	<u>4/02 - 12/02</u>	<u>1/03 - 12/03</u>	<u>1/04 - 12/04</u>	<u>1/05 - 12/05</u>	<u>Inception*</u>
Custom CalPERS Index	-19.8%	47.3%	31.9%	33.6%	21.6%
<u>Standard Index</u>	<u>-16.4%</u>	<u>54.0%</u>	<u>27.9%</u>	<u>35.1%</u>	<u>23.8%</u>
Difference	-3.4%	-6.7%	4.0%	-1.5%	-2.2%

\* Cumulative annualized return from April 1, 2002 - December 31, 2005.

#### Impact on External Managers

	<b>CalPERS Annualized Gross <u>Return*</u></b>	<b>Unconstrained Portfolio Annualized <u>Return*</u></b>	<b><u>Difference</u></b>
AllianceBernstein	39.9%	42.2%	-2.4%
Dimensional Fund Advisors	35.4%	33.4%	2.0%
<u>Genesis</u>	32.4%	39.1%	<u>-6.6%</u>
Asset Weighted Return Difference			-2.1%

\* From July 31, 2002 - December 31, 2005.

### ***Conclusion***

The CalPERS Board previously included countries that score 2.00 or above. With the 1-decimal place rounding methodology, the 2.0 demarcation would include the countries shown in Exhibit XI as follows.

**Exhibit XI**  
**Markets Meeting the 2.0 Score Threshold**

Argentina  
Brazil  
Chile  
Czech Republic  
Hungary  
India  
Indonesia  
Israel  
Jordan  
Malaysia  
Mexico  
Peru  
Philippines  
Poland  
South Africa  
South Korea  
Taiwan  
Thailand  
Turkey

There are 19 countries that meet the 2.0 threshold in the 2006 analysis. There are 18 countries that remained above the CalPERS threshold. Sri Lanka fell below the threshold, while Indonesia rose above the threshold. As previously done with countries that fall off the list, Sri Lanka is eligible to be granted a one-year “cure period” to improve its score before excluding the country from the universe. Indonesia scored below the 2.00 threshold in 2005 and subsequently improved its score and therefore, will be added to the Custom CalPERS FTSE Emerging Markets Index.

## **APPENDIX**

## **Country and Market Factor Evaluations By Country**

## COUNTRY FACTORS

### Factor 1: Political Stability

	(1a)	(1b)	(1c)				
	Civil	Independent	Political	Total	Wilshire	2005	
	Liberties	Judiciary and	Risk	Score*	Score**	Wilshire	
	Score	Legal Protection	Score			Score	Scoring Breakpoints:
1 Argentina	2.5	1.3	2.0	5.8	1.7	2	3.0 = 9.0
2 Brazil	2.5	1.7	1.3	5.5	1.7	2	2.7 = 8.0 - 8.9
3 Chile	3.0	3.0	3.0	9.0	3.0	3	2.3 = 7.0 - 7.9
4 China	1.0	2.0	1.7	4.7	1.3	2	2.0 = 6.0 - 6.9
5 Colombia	2.0	1.7	1.0	4.7	1.3	1	1.7 = 5.0 - 5.9
6 Czech Republic	3.0	2.3	3.0	8.3	2.7	3	1.3 = 4.0 - 4.9
7 Egypt	1.0	2.3	1.0	4.3	1.3	1	1.0 = 3.9 and below
8 Hungary	3.0	2.7	3.0	8.7	2.7	3	
9 India	2.0	2.7	1.0	5.7	1.7	2	
10 Indonesia	2.0	2.0	1.0	5.0	1.7	1	
11 Israel	2.5	3.0	1.0	6.5	2.0	2	
12 Jordan	1.5	3.0	2.3	6.8	2.0	2	
13 Malaysia	1.5	3.0	2.7	7.2	2.3	2	
14 Mexico	2.5	1.7	2.3	6.5	2.0	2	
15 Morocco	1.5	2.0	2.0	5.5	1.7	2	
16 Pakistan	1.0	1.7	1.0	3.7	1.0	1	
17 Peru	2.0	1.3	1.0	4.3	1.3	1	
18 Philippines	2.0	1.7	1.0	4.7	1.3	1	
19 Poland	3.0	2.0	3.0	8.0	2.7	2	
20 Russia	1.0	1.0	1.7	3.7	1.0	1	
21 South Africa	2.5	2.3	2.0	6.8	2.0	3	
22 South Korea	2.5	2.7	2.7	7.9	2.3	3	
23 Sri Lanka	2.0	1.7	1.0	4.7	1.3	2	
24 Taiwan	3.0	3.0	3.0	9.0	3.0	3	
25 Thailand	2.0	2.7	1.0	5.7	1.7	2	
26 Turkey	2.0	2.0	1.7	5.7	1.7	2	
27 Venezuela	1.5	1.0	1.0	3.5	1.0	1	

\* Total Score = sum of 3 sub-factor scores.

\*\* Wilshire Score based on Total Score.

**Factor 1A: Civil Liberties**

Source: Freedom House

	Civil Liberties	Wilshire	2005	
	<u>Score*</u>	<u>Score**</u>	<u>Score</u>	<u>Scoring Breakpoints:</u>
1 Argentina	2	2.5	3	3.0 = 1
2 Brazil	2	2.5	2	2.5 = 2
3 Chile	1	3.0	3	2.0 = 3
4 China	6	1.0	1	1.5 = 4
5 Colombia	3	2.0	1	1.0 = 5 and above
6 Czech Republic	1	3.0	3	
7 Egypt	5	1.0	1	
8 Hungary	1	3.0	3	
9 India	3	2.0	2	
10 Indonesia	3	2.0	1	
11 Israel	2	2.5	2	
12 Jordan	4	1.5	1	
13 Malaysia	4	1.5	1	
14 Mexico	2	2.5	3	
15 Morocco	4	1.5	1	
16 Pakistan	5	1.0	1	
17 Peru	3	2.0	2	
18 Philippines	3	2.0	2	
19 Poland	1	3.0	3	
20 Russia	5	1.0	1	
21 South Africa	2	2.5	3	
22 South Korea	2	2.5	3	
23 Sri Lanka	3	2.0	2	
24 Taiwan	1	3.0	3	
25 Thailand	3	2.0	2	
26 Turkey	3	2.0	2	
27 Venezuela	4	1.5	1	

\* 1 = free (good civil liberties); 7 = not free (poor civil liberties).

\*\* Wilshire Score based on Civil Liberties Score.



### Factor 1B: Independent Judiciary and Legal Protection

Source: Global Competitiveness Report 2005-2006

	Judicial Independence*	Property Rights*	Favoritism in Decisions of Govt. Officials*	Organized Crime*	Contracts and Law Subindex**	Wilshire Score***	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	2.2	3.1	2.4	4.2	2.98	1.3	1	3.0 = 4.80 and up
2 Brazil	3.0	4.3	2.9	3.5	3.42	1.7	2	2.7 = 4.40 - 4.79
3 Chile	4.1	5.3	4.1	5.9	4.88	3.0	3	2.3 = 4.00 - 4.39
4 China	3.4	4.1	3.0	4.5	3.74	2.0	2	2.0 = 3.60 - 3.99
5 Colombia	3.4	4.7	2.6	2.6	3.32	1.7	1	1.7 = 3.20 - 3.59
6 Czech Republic	4.3	4.3	3.1	4.7	4.11	2.3	2	1.3 = 2.80 - 3.19
7 Egypt****	NA	4.4	3.5	5.3	4.37	2.3	2	1.0 = 2.79 and below
8 Hungary	4.3	5.5	2.8	5.1	4.43	2.7	3	
9 India	5.3	5.3	3.2	5.3	4.78	2.7	3	
10 Indonesia	3.2	3.7	3.7	4.0	3.66	2.0	2	
11 Israel	5.7	5.6	3.3	5.6	5.03	3.0	3	
12 Jordan	4.7	5.2	3.7	6.6	5.05	3.0	3	
13 Malaysia	5.4	5.7	4.5	5.7	5.30	3.0	3	
14 Mexico	3.5	4.2	2.9	2.8	3.35	1.7	2	
15 Morocco	3.1	4.1	3.3	4.6	3.76	2.0	3	
16 Pakistan	2.6	3.7	2.9	3.8	3.23	1.7	1	
17 Peru	2.0	3.4	2.5	4.0	2.98	1.3	1	
18 Philippines	2.7	4.2	2.4	4.0	3.32	1.7	1	
19 Poland	3.4	4.3	2.6	4.4	3.68	2.0	1	
20 Russia	2.3	3.1	2.2	3.5	2.78	1.0	1	
21 South Africa	4.9	5.8	3.0	3.5	4.31	2.3	3	
22 South Korea	4.2	5.2	3.8	4.9	4.53	2.7	3	
23 Sri Lanka	3.0	3.9	2.3	3.6	3.21	1.7	2	
24 Taiwan	4.3	5.5	4.4	5.3	4.88	3.0	3	
25 Thailand	4.4	4.9	3.5	5.1	4.48	2.7	3	
26 Turkey	3.6	4.4	3.0	4.4	3.82	2.0	2	
27 Venezuela	1.3	2.6	1.7	3.3	2.22	1.0	1	

\* 1 = Lower level of judicial independence/legal protection; 7 = Higher level of judicial independence/legal protection.

\*\* Contracts and Law Subindex is an equal-weighted average of its four sub-components.

\*\*\* Wilshire Score based on Contracts and Law Subindex.

\*\*\*\* For Egypt, there is insufficient data for judicial independence.

**Factor 1C: Political Risk**

Source: International Country Risk Guide (December 2005)

	Current	Wilshire	2005	
	<u>Rating*</u>	<u>Score**</u>	<u>Score</u>	<u>Scoring Breakpoints:</u>
1 Argentina	71.0	2.0	1	3.0 = 77.5 and up
2 Brazil	65.5	1.3	1	2.7 = 75.0 - 77.4
3 Chile	82.5	3.0	3	2.3 = 72.5 - 74.9
4 China	69.5	1.7	2	2.0 = 70.0 - 72.4
5 Colombia	56.5	1.0	1	1.7 = 67.5 - 69.9
6 Czech Republic	80.5	3.0	3	1.3 = 65.0 - 67.4
7 Egypt	63.0	1.0	1	1.0 = 64.9 and below
8 Hungary	79.5	3.0	3	
9 India	64.5	1.0	1	
10 Indonesia	57.0	1.0	1	
11 Israel	64.0	1.0	1	
12 Jordan	72.5	2.3	2	
13 Malaysia	76.5	2.7	3	
14 Mexico	72.5	2.3	2	
15 Morocco	72.0	2.0	2	
16 Pakistan	45.5	1.0	1	
17 Peru	62.5	1.0	1	
18 Philippines	63.5	1.0	1	
19 Poland	77.5	3.0	2	
20 Russia	67.5	1.7	1	
21 South Africa	70.0	2.0	2	
22 South Korea	75.5	2.7	3	
23 Sri Lanka	53.5	1.0	1	
24 Taiwan	79.0	3.0	3	
25 Thailand	61.5	1.0	1	
26 Turkey	68.0	1.7	2	
27 Venezuela	53.0	1.0	1	

\* 0 = Politically unstable; 100 = Politically stable.

\*\* Wilshire Score based on Current Rating.

## Factor 2: Transparency

	(2a) Freedom of the Press Score	(2b) Monetary and Fiscal Transparency Score	(2c) Stock Exchange Listing Requirements Score	(2d) Accounting Standards Score	Total Score*	Wilshire Score**	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	3.0	2.3	2.0	1.5	8.8	2.3	2	3.0 = 10.0 and above
2 Brazil	3.0	2.7	2.3	1.0	9.0	2.7	3	2.7 = 9.0 - 9.9
3 Chile	3.0	3.0	2.0	1.5	9.5	2.7	3	2.3 = 8.0 - 8.9
4 China	1.0	1.0	2.3	1.5	5.8	1.3	1	2.0 = 7.0 - 7.9
5 Colombia	2.0	2.3	1.3	1.0	6.6	1.7	2	1.7 = 6.0 - 6.9
6 Czech Republic	3.0	3.0	2.3	1.0	9.3	2.7	3	1.3 = 5.0 - 5.9
7 Egypt	1.0	1.3	2.7	1.0	6.0	1.7	1	1.0 = 4.9 and below
8 Hungary	3.0	2.7	2.3	1.5	9.5	2.7	3	
9 India	3.0	2.3	2.7	1.0	9.0	2.7	3	
10 Indonesia	3.0	2.3	2.0	1.0	8.3	2.3	2	
11 Israel	3.0	2.3	2.3	1.5	9.1	2.7	2	
12 Jordan	2.0	1.7	3.0	1.5	8.2	2.3	2	
13 Malaysia	2.0	2.7	2.7	1.5	8.9	2.3	3	
14 Mexico	3.0	2.7	1.7	1.5	8.9	2.3	3	
15 Morocco	2.0	2.0	2.0	1.0	7.0	2.0	1	
16 Pakistan	1.0	1.7	2.3	1.5	6.5	1.7	1	
17 Peru	3.0	2.7	1.3	1.0	8.0	2.3	2	
18 Philippines	2.0	2.7	3.0	2.0	9.7	2.7	3	
19 Poland	3.0	3.0	2.3	1.0	9.3	2.7	3	
20 Russia	1.0	2.0	2.7	1.5	7.2	2.0	2	
21 South Africa	3.0	2.7	2.3	2.0	10.0	3.0	3	
22 South Korea	3.0	3.0	2.7	1.5	10.2	3.0	3	
23 Sri Lanka	2.0	2.0	2.7	1.0	7.7	2.0	2	
24 Taiwan	3.0	2.3	3.0	1.0	9.3	2.7	3	
25 Thailand	2.0	2.3	2.7	1.5	8.5	2.3	3	
26 Turkey	2.0	2.3	2.7	1.0	8.0	2.3	2	
27 Venezuela	2.0	1.3	2.0	1.5	6.8	1.7	2	

\* Total Score = sum of 4 sub-factor scores.

\*\* Wilshire Score based on Total Score.

**Factor 2A: Freedom of the Press**

Source: Freedom House

	Freedom	Wilshire	2005	
	<u>Rating*</u>	<u>Score**</u>	<u>Score</u>	<u>Scoring Breakpoints:</u>
1 Argentina	F	3.0	3	3.0 = F
2 Brazil	F	3.0	3	2.0 = PF
3 Chile	F	3.0	3	1.0 = NF
4 China	NF	1.0	1	
5 Colombia	PF	2.0	2	
6 Czech Republic	F	3.0	3	
7 Egypt	NF	1.0	1	
8 Hungary	F	3.0	3	
9 India	F	3.0	3	
10 Indonesia	F	3.0	2	
11 Israel	F	3.0	3	
12 Jordan	PF	2.0	2	
13 Malaysia	PF	2.0	2	
14 Mexico	F	3.0	3	
15 Morocco	PF	2.0	2	
16 Pakistan	NF	1.0	1	
17 Peru	F	3.0	3	
18 Philippines	PF	2.0	3	
19 Poland	F	3.0	3	
20 Russia	NF	1.0	1	
21 South Africa	F	3.0	3	
22 South Korea	F	3.0	3	
23 Sri Lanka	PF	2.0	2	
24 Taiwan	F	3.0	3	
25 Thailand	PF	2.0	3	
26 Turkey	PF	2.0	2	
27 Venezuela	PF	2.0	2	

\* F = Free; PF = Partially Free; NF = Not Free.

\*\* Wilshire Score based on Freedom Rating.

**Factor 2B: Monetary and Fiscal Transparency**

Source: Oxford Analytica

	Monetary Transparency	Fiscal Transparency	Total	Wilshire	2005 Wilshire	
	<u>Score*</u>	<u>Score*</u>	<u>Score**</u>	<u>Score***</u>	<u>Score</u>	<u>Scoring Breakpoints:</u>
1 Argentina	3.75	3.25	7.00	2.3	2	3.0 = 8.50 and up
2 Brazil	4.00	4.00	8.00	2.7	3	2.7 = 7.75 - 8.25
3 Chile	4.50	4.25	8.75	3.0	3	2.3 = 7.00 - 7.50
4 China	2.25	1.75	4.00	1.0	1	2.0 = 6.25 - 6.75
5 Colombia	4.00	3.25	7.25	2.3	2	1.7 = 5.50 - 6.00
6 Czech Republic	4.75	4.00	8.75	3.0	3	1.3 = 4.75 - 5.25
7 Egypt	2.75	2.50	5.25	1.3	1	1.0 = 4.50 and below
8 Hungary	4.25	4.00	8.25	2.7	3	
9 India	3.50	3.50	7.00	2.3	2	
10 Indonesia	3.75	3.25	7.00	2.3	2	
11 Israel	3.75	3.25	7.00	2.3	2	
12 Jordan	3.00	2.75	5.75	1.7	1	
13 Malaysia	4.00	3.75	7.75	2.7	2	
14 Mexico	4.25	3.75	8.00	2.7	3	
15 Morocco	3.00	3.25	6.25	2.0	2	
16 Pakistan	3.00	2.50	5.50	1.7	1	
17 Peru	4.25	3.50	7.75	2.7	3	
18 Philippines	4.00	3.75	7.75	2.7	3	
19 Poland	4.50	4.00	8.50	3.0	3	
20 Russia	3.50	3.00	6.50	2.0	2	
21 South Africa	4.25	4.00	8.25	2.7	3	
22 South Korea	4.50	4.00	8.50	3.0	3	
23 Sri Lanka	3.50	3.00	6.50	2.0	2	
24 Taiwan	3.75	3.25	7.00	2.3	2	
25 Thailand	4.00	3.50	7.50	2.3	2	
26 Turkey	4.00	3.00	7.00	2.3	2	
27 Venezuela	2.50	2.25	4.75	1.3	1	

\* 1 = least transparent; 5 = most transparent.

\*\* Total Score = sum of 2 sub-components.

\*\*\* Wilshire Score based on Total Score.

**Factor 2C: Stock Exchange Listing Requirements**

Source: Individual Stock Exchanges\*

	Annual**	Audited**	Semi-Annual**	Quarterly**	Periodic**	Material Events**	Minimum Value of Assets/Equity**	Cash Flow/Revenue/Profitability**	Shareholder Distribution**	Total Score***	Wilshire Score****	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	1	1	1	1	0	1	0	0	1	6	2.0	2	3.0 = 9
2 Brazil	1	1	1	1	1	1	0	0	1	7	2.3	3	2.7 = 8
3 Chile	1	1	1	1	0	1	0	0	1	6	2.0	1	2.3 = 7
4 China	1	1	1	0	0	1	1	1	1	7	2.3	2	2.0 = 6
5 Colombia	1	1	0	0	1	1	0	0	0	4	1.3	1	1.7 = 5
6 Czech Republic	1	1	1	1	0	1	1	0	1	7	2.3	2	1.3 = 4
7 Egypt	1	1	1	1	0	1	1	1	1	8	2.7	2	1.0 = 3 and below
8 Hungary	1	1	1	1	0	1	1	0	1	7	2.3	2	
9 India	1	1	1	1	0	1	1	1	1	8	2.7	3	
10 Indonesia	1	1	1	1	0	1	0	0	1	6	2.0	2	
11 Israel	1	1	1	1	0	1	1	0	1	7	2.3	2	
12 Jordan	1	1	1	1	1	1	1	1	1	9	3.0	3	
13 Malaysia	1	1	1	1	0	1	1	1	1	8	2.7	3	
14 Mexico	1	1	1	1	0	1	0	0	0	5	1.7	1	
15 Morocco	1	1	1	0	0	1	1	0	1	6	2.0	1	
16 Pakistan	1	1	1	1	0	1	1	0	1	7	2.3	2	
17 Peru	1	0	1	1	0	1	0	0	0	4	1.3	1	
18 Philippines	1	1	1	1	1	1	1	1	1	9	3.0	3	
19 Poland	1	1	1	1	0	1	1	0	1	7	2.3	2	
20 Russia	1	1	1	1	0	1	1	1	1	8	2.7	3	
21 South Africa	1	1	1	0	0	1	1	1	1	7	2.3	3	
22 South Korea	1	1	1	1	0	1	1	1	1	8	2.7	3	
23 Sri Lanka	1	1	1	1	0	1	1	1	1	8	2.7	3	
24 Taiwan	1	1	1	1	1	1	1	1	1	9	3.0	3	
25 Thailand	1	1	1	1	0	1	1	1	1	8	2.7	3	
26 Turkey	1	1	1	1	0	1	1	1	1	8	2.7	3	
27 Venezuela	1	1	1	1	0	1	1	0	0	6	2.0	2	

\* Wilshire referred to the websites of the individual stock exchanges for this information. Wilshire also sent out the listing requirements to the stock exchanges for verification.

\*\* 0 = not required or source does not specifically enumerate; 1 = required. "Annual", "Semi-annual", and "Quarterly" indicate the frequency at which publicly-listed companies are required to supply financial statements to their respective stock exchange. "Audited" indicates whether the annual financial statements are required to be independently audited. "Periodic" indicates whether the stock exchange requires more frequent reporting than every three months. "Material events" indicates whether the stock exchange requires companies to disclose significant events that may affect a company's stock price. "Minimum value of assets/equity", "Cash flow/revenue/profitability", and "Shareholder distribution" indicate whether the stock exchanges require publicly-listed companies to have a minimum value of assets, equity, and/or assets/equity, a minimum level of cash flow, revenue, and/or profitability, and a minimum level of shareholder distribution, respectively, in order to be listed.

\*\*\* Total Score = sum of 9 sub-components.

\*\*\*\* Wilshire Score based on Total Score.

**Factor 2D: Accounting Standards**

Source: eStandards Forum

	Accounting Standards*	Wilshire Score**	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	ID	1.5	1	3.0 = FC
2 Brazil	NC	1.0	1	2.5 = CP
3 Chile	ID	1.5	2	2.0 = EN
4 China	ID	1.5	2	1.5 = ID
5 Colombia	NC	1.0	2	1.0 = NC and II
6 Czech Republic	NC	1.0	1	
7 Egypt	NC	1.0	1	
8 Hungary	ID	1.5	2	
9 India	NC	1.0	1	
10 Indonesia	NC	1.0	1	
11 Israel	ID	1.5	1	
12 Jordan	ID	1.5	1	
13 Malaysia	ID	1.5	2	
14 Mexico	ID	1.5	2	
15 Morocco	NC	1.0	1	
16 Pakistan	ID	1.5	2	
17 Peru	NC	1.0	1	
18 Philippines	EN	2.0	2	
19 Poland	NC	1.0	1	
20 Russia	ID	1.5	2	
21 South Africa	EN	2.0	2	
22 South Korea	ID	1.5	2	
23 Sri Lanka	NC	1.0	1	
24 Taiwan	NC	1.0	1	
25 Thailand	ID	1.5	2	
26 Turkey	NC	1.0	1	
27 Venezuela	ID	1.5	2	

\* FC = Full Compliance; CP = Compliance in Progress; EN = Enacted; ID = Intent Declared; NC = No Compliance; II = Insufficient Information.

\*\* Wilshire Score based on Accounting Standards.

### Factor 3: Productive Labor Practices

Source: Verite

	(3a) ILO Convention Ratification*	(3b) Laws*	(3c) Institutional Capacity*	(3d) Effectiveness of Implementation*	Contract Labor*	Total Score**	Wilshire Score****	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	4.0	8.6	2.8	13.6	0	29.0	2.7	3	3.0 = 32.0 and above
2 Brazil	3.5	7.8	1.2	9.2	0	21.7	1.7	2	2.7 = 29.0 - 31.9
3 Chile	4.0	6.7	2.8	15.3	0	28.9	2.3	2	2.3 = 26.0 - 28.9
4 China	1.5	7.1	1.6	6.5	0	16.7	1.0	1	2.0 = 23.0 - 25.9
5 Colombia	4.0	6.6	0.4	9.3	0	20.3	1.7	1	1.7 = 20.0 - 22.9
6 Czech Republic	3.5	8.7	2.8	17.6	-1	31.5	2.7	3	1.3 = 17.0 - 19.9
7 Egypt	4.0	7.5	0.4	8.8	0	20.7	1.7	1	1.0 = 16.9 and below
8 Hungary	4.0	7.8	4.4	17.8	0	33.9	3.0	3	
9 India	2.0	7.5	0.8	4.8	0	15.1	1.0	1	
10 Indonesia	4.0	7.4	0.4	5.7	0	17.4	1.3	1	
11 Israel	4.0	8.2	2.4	17.6	-1	31.1	2.7	3	
12 Jordan	3.5	7.1	2.0	11.0	-1	22.5	1.7	2	
13 Malaysia	2.5	4.7	0.4	9.5	-1	16.1	1.0	1	
14 Mexico	3.0	8.7	0.8	11.9	-1	23.5	2.0	1	
15 Morocco	3.5	7.4	0.8	7.4	0	19.1	1.3	1	
16 Pakistan	3.5	3.6	0.8	4.0	0	11.9	1.0	1	
17 Peru	4.0	6.6	2.8	12.5	0	26.0	2.3	2	
18 Philippines	4.0	7.4	2.8	9.5	0	23.7	2.0	2	
19 Poland	4.0	8.0	2.8	17.7	0	32.5	3.0	3	
20 Russia	4.0	8.0	0.4	9.5	0	21.9	1.7	1	
21 South Africa	4.0	8.8	2.8	13.7	-1	28.2	2.3	2	
22 South Korea	2.0	7.2	2.8	15.4	-1	26.4	2.3	2	
23 Sri Lanka	4.0	5.3	2.8	10.6	0	22.7	1.7	2	
24 Taiwan	NA***	7.8	2.8	15.8	-1	25.4	2.0	2	
25 Thailand	2.5	7.9	2.4	9.1	-1	20.9	1.7	1	
26 Turkey	4.0	6.7	2.0	10.2	0	22.8	1.7	2	
27 Venezuela	4.0	8.2	2.0	11.0	0	25.2	2.0	2	

\* Higher score = more productive labor practices.

\*\* Total Score = sum of 4 sub-factor scores and a deduction factor; Total Score is out of 40; 10% weighting to ILO Convention Ratification, 25% weighting to Laws, 15% weighting to Institutional Capacity, and 50% weighting to Effectiveness of Implementation. Contract Labor reflects a one-point deduction if a country does not extend labor protections to foreign contract workers.

\*\*\* Taiwan is not eligible to ratify ILO conventions; not a member of U.N.; score based on 36 possible points.

\*\*\*\* Wilshire Score based on Total Score.



**MARKET FACTORS**
**Factor 4: Market Liquidity and Volatility**

	(4a)	(4b)	(4c)	(4d)	(4e)	(4f)			2005	
	Market Cap	Change in Mkt Cap	Avg Monthly Trading Value	Growth in Listed Companies	Market Volatility	Return/Risk Ratio	Total Score*	Wilshire Score**	Wilshire Score	Scoring Breakpoints:
	Score	Score	Score	Score	Score	Score				
1 Argentina	2.0	1.0	1.3	1.3	1.3	2.3	9.2	1.7	1	3.0 = 14.0 and above
2 Brazil	3.0	2.3	1.3	1.0	2.0	3.0	12.6	2.7	2	2.7 = 12.0 - 13.9
3 Chile	2.7	2.7	1.0	1.3	2.7	3.0	13.4	2.7	3	2.3 = 11.0 - 11.9
4 China	3.0	2.7	2.0	3.0	2.7	2.7	16.1	3.0	3	2.0 = 10.0 - 10.9
5 Colombia	1.7	3.0	1.0	1.0	2.3	3.0	12.0	2.7	2	1.7 = 9.0 - 9.9
6 Czech Republic	1.7	3.0	1.3	1.0	2.7	3.0	12.7	2.7	3	1.3 = 8.0 - 8.9
7 Egypt	1.7	2.0	1.3	1.0	2.3	3.0	11.3	2.3	3	1.0 = 7.9 and below
8 Hungary	1.7	2.7	1.3	1.0	2.7	3.0	12.4	2.7	3	
9 India	3.0	3.0	2.0	1.3	2.7	3.0	15.0	3.0	3	
10 Indonesia	2.3	2.0	1.3	2.3	2.0	3.0	12.9	2.7	3	
11 Israel	2.3	2.3	1.3	1.3	2.7	2.0	11.9	2.3	2	
12 Jordan	1.7	3.0	1.3	2.7	3.0	3.0	14.7	3.0	3	
13 Malaysia	2.7	2.3	1.3	2.7	3.0	3.0	15.0	3.0	3	
14 Mexico	2.7	2.0	1.3	1.3	2.7	3.0	13.0	2.7	3	
15 Morocco	1.7	2.7	1.0	1.3	3.0	3.0	12.7	2.7	2	
16 Pakistan	1.7	3.0	3.0	1.3	2.0	3.0	14.0	3.0	3	
17 Peru	1.7	2.7	1.0	1.3	2.7	3.0	12.4	2.7	3	
18 Philippines	1.7	1.0	1.3	1.7	2.7	2.3	10.7	2.0	2	
19 Poland	2.3	3.0	1.3	1.7	2.3	3.0	13.6	2.7	3	
20 Russia	2.7	3.0	1.3	1.7	2.3	3.0	14.0	3.0	3	
21 South Africa	3.0	2.7	1.3	1.0	2.7	3.0	13.7	2.7	3	
22 South Korea	3.0	1.7	2.3	3.0	2.3	3.0	15.3	3.0	3	
23 Sri Lanka	1.0	3.0	1.3	1.7	1.7	3.0	11.7	2.3	3	
24 Taiwan	3.0	2.0	2.3	3.0	2.3	2.3	14.9	3.0	3	
25 Thailand	2.7	2.7	2.0	2.3	2.3	3.0	15.0	3.0	3	
26 Turkey	2.3	1.3	2.3	1.7	1.0	2.3	10.9	2.0	3	
27 Venezuela	1.3	1.3	1.0	1.0	1.7	2.0	8.3	1.3	1	

\* Total Score = sum of 6 sub-factor scores.

\*\* Wilshire Score based on Total Score.

**Factor 4A: Market Capitalization**

Source: S&amp;P Global Stock Markets Factbook 2005

	2004	Wilshire	2005	
	<u>Mkt Cap (\$ mil)</u>	<u>Score*</u>	<u>Score</u>	<u>Scoring Breakpoints:</u>
1 Argentina	46,432	2.0	2	3.0 = 300,000 and above
2 Brazil	330,347	3.0	3	2.7 = 100,000 - 299,999
3 Chile	117,065	2.7	3	2.3 = 70,000 - 99,999
4 China	639,765	3.0	3	2.0 = 40,000 - 69,999
5 Colombia	25,223	1.7	2	1.7 = 10,000 - 39,999
6 Czech Republic	30,863	1.7	2	1.3 = 5,000 - 9,999
7 Egypt	38,516	1.7	2	1.0 = 4,999 and below
8 Hungary	28,711	1.7	2	
9 India	387,851	3.0	3	
10 Indonesia	73,251	2.3	2	
11 Israel	95,505	2.3	2	
12 Jordan	18,383	1.7	1	
13 Malaysia	190,011	2.7	3	
14 Mexico	171,940	2.7	3	
15 Morocco	25,064	1.7	2	
16 Pakistan	29,002	1.7	2	
17 Peru	20,115	1.7	2	
18 Philippines	28,948	1.7	2	
19 Poland	71,102	2.3	2	
20 Russia	267,957	2.7	3	
21 South Africa	455,536	3.0	3	
22 South Korea	428,649	3.0	3	
23 Sri Lanka	3,657	1.0	1	
24 Taiwan	441,436	3.0	3	
25 Thailand	115,400	2.7	3	
26 Turkey	98,299	2.3	2	
27 Venezuela	6,117	1.3	1	

\* Wilshire Score based on 2004 Mkt Cap.

**Factor 4B: Change in Market Capitalization**

Source: S&amp;P Global Stock Markets Factbook 2005

	2004	1999	5-year	Wilshire	2005	
	Mkt Cap (\$ mil)	Mkt Cap (\$ mil)	% Change in Mkt Cap	Score*	Wilshire Score	Scoring Breakpoints:
1 Argentina	46,432	83,887	-44.6%	1.0	1	3.0 = 100.0% and above
2 Brazil	330,347	227,962	44.9%	2.3	2	2.7 = 50.0% - 99.9%
3 Chile	117,065	68,228	71.6%	2.7	3	2.3 = 30.0% - 49.9%
4 China	639,765	330,703	93.5%	2.7	3	2.0 = 10.0% - 29.9%
5 Colombia	25,223	11,590	117.6%	3.0	2	1.7 = 0.0% - 9.9%
6 Czech Republic	30,863	11,796	161.6%	3.0	2	1.3 = -0.1% - -20.0%
7 Egypt	38,516	32,838	17.3%	2.0	2	1.0 = -20.1% and below
8 Hungary	28,711	16,317	76.0%	2.7	2	
9 India	387,851	184,605	110.1%	3.0	3	
10 Indonesia	73,251	64,087	14.3%	2.0	3	
11 Israel	95,505	63,820	49.6%	2.3	3	
12 Jordan	18,383	5,827	215.5%	3.0	3	
13 Malaysia	190,011	145,445	30.6%	2.3	3	
14 Mexico	171,940	154,044	11.6%	2.0	2	
15 Morocco	25,064	13,695	83.0%	2.7	1	
16 Pakistan	29,002	6,965	316.4%	3.0	3	
17 Peru	20,115	13,392	50.2%	2.7	2	
18 Philippines	28,948	42,149	-31.3%	1.0	1	
19 Poland	71,102	29,577	140.4%	3.0	3	
20 Russia	267,957	72,205	271.1%	3.0	3	
21 South Africa	455,536	262,478	73.6%	2.7	3	
22 South Korea	428,649	395,664	8.3%	1.7	3	
23 Sri Lanka	3,657	1,584	130.9%	3.0	3	
24 Taiwan	441,436	375,991	17.4%	2.0	2	
25 Thailand	115,400	58,365	97.7%	2.7	3	
26 Turkey	98,299	112,716	-12.8%	1.3	3	
27 Venezuela	6,117	7,471	-18.1%	1.3	1	

\* Wilshire Score based on 5-year % Change in Mkt Cap.

**Factor 4C: Average Monthly Trading Value**

Source: S&amp;P Global Stock Markets Factbook 2005

	Avg Monthly Trading Value (\$ mil)	2004 Mkt Cap (\$mil)	Avg Monthly Trading Value as % of Mkt Cap	Wilshire Score*	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	637	46,432	1.4%	1.3	1	3.0 = 20.0% and above
2 Brazil	7798	330,347	2.4%	1.3	1	2.7 = 15.0% - 19.9%
3 Chile	966	117,065	0.8%	1.0	1	2.3 = 10.0% - 14.9%
4 China	62356	639,765	9.7%	2.0	2	2.0 = 7.5% - 9.9%
5 Colombia	122	25,223	0.5%	1.0	1	1.7 = 5.0% - 7.4%
6 Czech Republic	1472	30,863	4.8%	1.3	1	1.3 = 1.0% - 4.9%
7 Egypt	467	38,516	1.2%	1.3	1	1.0 = 0.9% and below
8 Hungary	1084	28,711	3.8%	1.3	1	
9 India	31590	387,851	8.1%	2.0	2	
10 Indonesia	2297	73,251	3.1%	1.3	1	
11 Israel	3853	95,505	4.0%	1.3	1	
12 Jordan	444	18,383	2.4%	1.3	1	
13 Malaysia	4990	190,011	2.6%	1.3	1	
14 Mexico	3570	171,940	2.1%	1.3	1	
15 Morocco	140	25,064	0.6%	1.0	1	
16 Pakistan	6156	29,002	21.2%	3.0	3	
17 Peru	94	20,115	0.5%	1.0	1	
18 Philippines	305	28,948	1.1%	1.3	1	
19 Poland	1381	71,102	1.9%	1.3	1	
20 Russia	10903	267,957	4.1%	1.3	1	
21 South Africa	13569	455,536	3.0%	1.3	1	
22 South Korea	53241	428,649	12.4%	2.3	3	
23 Sri Lanka	49	3,657	1.3%	1.3	1	
24 Taiwan	59885	441,436	13.6%	2.3	3	
25 Thailand	9162	115,400	7.9%	2.0	2	
26 Turkey	12286	98,299	12.5%	2.3	3	
27 Venezuela	38	6,117	0.6%	1.0	1	

\* Wilshire Score based on Avg Monthly Trading Value as % of Mkt Cap.

**Factor 4D: Growth in Listed Companies**

Source: S&amp;P Global Stock Markets Factbook 2005

	2004	1999	5-year	Wilshire	2005	
	Listed Companies	Listed Companies	% Change in Listed Companies	Score*	Wilshire Score	Scoring Breakpoints:
1 Argentina	104	129	-19.4%	1.3	1	3.0 = 30.0% and above
2 Brazil	357	478	-25.3%	1.0	1	2.7 = 20.0% - 29.9%
3 Chile	239	285	-16.1%	1.3	1	2.3 = 10.0% - 19.9%
4 China	1384	950	45.7%	3.0	3	2.0 = 5.0% - 9.9%
5 Colombia	114	145	-21.4%	1.0	1	1.7 = 0.0% - 4.9%
6 Czech Republic	54	164	-67.1%	1.0	1	1.3 = -0.1% - -20.0%
7 Egypt	792	1033	-23.3%	1.0	2	1.0 = -20.1% and below
8 Hungary	47	66	-28.8%	1.0	1	
9 India	4730	5863	-19.3%	1.3	1	
10 Indonesia	331	277	19.5%	2.3	2	
11 Israel	571	644	-11.3%	1.3	1	
12 Jordan	192	152	26.3%	2.7	2	
13 Malaysia	962	757	27.1%	2.7	3	
14 Mexico	152	188	-19.1%	1.3	1	
15 Morocco	52	55	-5.5%	1.3	2	
16 Pakistan	661	765	-13.6%	1.3	1	
17 Peru	194	242	-19.8%	1.3	1	
18 Philippines	233	225	3.6%	1.7	2	
19 Poland	225	221	1.8%	1.7	2	
20 Russia	215	207	3.9%	1.7	1	
21 South Africa	403	668	-39.7%	1.0	1	
22 South Korea	1573	1178	33.5%	3.0	3	
23 Sri Lanka	245	239	2.5%	1.7	2	
24 Taiwan	697	462	50.9%	3.0	3	
25 Thailand	465	392	18.6%	2.3	1	
26 Turkey	296	285	3.9%	1.7	2	
27 Venezuela	59	87	-32.2%	1.0	1	

\* Wilshire Score based on 5-year % Change in Listed Companies.

**Factor 4E: Market Volatility**

Source: Wilshire Compass (MSCI Indices)

		Wilshire	2005 Wilshire	
	<u>Risk*</u>	<u>Score**</u>	<u>Score</u>	<u>Scoring Breakpoints:</u>
1 Argentina	47.8%	1.3	2	3.0 = 20.0% and below
2 Brazil	39.7%	2.0	2	2.7 = 20.1% - 30.0%
3 Chile	22.2%	2.7	3	2.3 = 30.1% - 35.0%
4 China	26.2%	2.7	3	2.0 = 35.1% - 40.0%
5 Colombia	30.5%	2.3	2	1.7 = 40.1% - 45.0%
6 Czech Republic	23.1%	2.7	3	1.3 = 45.1% - 50.0%
7 Egypt	33.2%	2.3	3	1.0 = 50.1% and above
8 Hungary	26.9%	2.7	3	
9 India	25.4%	2.7	3	
10 Indonesia	36.0%	2.0	2	
11 Israel	27.0%	2.7	2	
12 Jordan	19.2%	3.0	3	
13 Malaysia	18.1%	3.0	3	
14 Mexico	22.7%	2.7	3	
15 Morocco	17.4%	3.0	3	
16 Pakistan	35.4%	2.0	2	
17 Peru	24.3%	2.7	3	
18 Philippines	25.5%	2.7	3	
19 Poland	31.0%	2.3	2	
20 Russia	31.5%	2.3	2	
21 South Africa	24.7%	2.7	3	
22 South Korea	31.9%	2.3	2	
23 Sri Lanka	41.1%	1.7	2	
24 Taiwan	30.2%	2.3	2	
25 Thailand	31.8%	2.3	2	
26 Turkey	58.5%	1.0	1	
27 Venezuela	44.4%	1.7	2	

\* Risk as measured by standard deviation of return on a US dollar basis over the five-year period ended December 31, 2005.

\*\* Wilshire Score based on Risk.

**Factor 4F: Return/Risk Ratio**

Source: Wilshire Compass (MSCI Indices)

	Return	Risk*	Return/Risk Ratio	Wilshire Score**	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	10.9%	47.8%	0.23	2.3	1	3.0 = 0.40 and above
2 Brazil	21.5%	39.7%	0.54	3.0	2	2.7 = 0.30 - 0.39
3 Chile	17.7%	22.2%	0.80	3.0	3	2.3 = 0.20 - 0.29
4 China	8.2%	26.2%	0.31	2.7	1	2.0 = 0.10 - 0.19
5 Colombia	71.3%	30.5%	2.34	3.0	3	1.7 = 0.00 - 0.09
6 Czech Republic	45.1%	23.1%	1.95	3.0	3	1.3 = -0.01 - -0.20
7 Egypt	46.6%	33.2%	1.40	3.0	2	1.0 = -0.21 and below
8 Hungary	29.1%	26.9%	1.08	3.0	3	
9 India	20.6%	25.4%	0.81	3.0	2	
10 Indonesia	32.6%	36.0%	0.91	3.0	2	
11 Israel	2.7%	27.0%	0.10	2.0	2	
12 Jordan	44.2%	19.2%	2.30	3.0	3	
13 Malaysia	9.2%	18.1%	0.51	3.0	2	
14 Mexico	24.7%	22.7%	1.09	3.0	3	
15 Morocco	10.5%	17.4%	0.60	3.0	2	
16 Pakistan	40.3%	35.4%	1.14	3.0	3	
17 Peru	33.5%	24.3%	1.38	3.0	3	
18 Philippines	5.1%	25.5%	0.20	2.3	1	
19 Poland	15.0%	31.0%	0.48	3.0	2	
20 Russia	42.3%	31.5%	1.34	3.0	3	
21 South Africa	23.5%	24.7%	0.95	3.0	3	
22 South Korea	33.6%	31.9%	1.06	3.0	2	
23 Sri Lanka	33.5%	41.1%	0.81	3.0	3	
24 Taiwan	7.0%	30.2%	0.23	2.3	1	
25 Thailand	28.9%	31.8%	0.91	3.0	2	
26 Turkey	16.9%	58.5%	0.29	2.3	1	
27 Venezuela	5.9%	44.4%	0.13	2.0	2	

\* Risk as measured by standard deviation of return on a US dollar basis over the five-year period ended December 31, 2005.

\*\* Wilshire Score based on Return/Risk Ratio.

**Factor 5: Market Regulation/Legal System/Investor Protection**

	(5a) Adequacy of Financial Regulation <u>Score</u>	(5b) Creditors' Rights <u>Score</u>	(5c) Shareholders' Rights <u>Score</u>	<u>Total Score*</u>	<u>Wilshire Score**</u>	2005 Wilshire <u>Score</u>	<u>Scoring Breakpoints:</u>
1 Argentina	1.5	2.0	2.0	5.5	2.0	2	3.0 = 8.0 and up
2 Brazil	1.5	2.0	2.7	6.2	2.3	2	2.7 = 7.0 - 7.9
3 Chile	2.5	2.0	2.7	7.2	2.7	3	2.3 = 6.0 - 6.9
4 China	1.0	2.0	2.3	5.3	1.7	2	2.0 = 5.5 - 5.9
5 Colombia	1.5	2.0	2.0	5.5	2.0	2	1.7 = 5.0 - 5.4
6 Czech Republic	2.5	1.0	1.7	5.2	1.7	2	1.3 = 4.5 - 4.9
7 Egypt	1.5	1.5	1.7	4.7	1.3	1	1.0 = 4.4 and below
8 Hungary	2.5	1.5	2.0	6.0	2.3	2	
9 India	1.5	2.5	2.7	6.7	2.3	3	
10 Indonesia	1.5	3.0	2.3	6.8	2.3	3	
11 Israel	2.5	2.5	2.0	7.0	2.7	3	
12 Jordan	1.5	1.5	1.3	4.3	1.0	1	
13 Malaysia	1.0	2.5	2.3	5.8	2.0	2	
14 Mexico	1.5	1.5	2.7	5.7	2.0	2	
15 Morocco	1.0	2.5	2.0	5.5	2.0	2	
16 Pakistan	2.0	2.5	2.3	6.8	2.3	2	
17 Peru	1.0	2.0	2.3	5.3	1.7	2	
18 Philippines	2.5	3.0	3.0	8.5	3.0	3	
19 Poland	2.5	1.0	2.7	6.2	2.3	3	
20 Russia	1.5	1.5	2.7	5.7	2.0	2	
21 South Africa	2.5	2.5	2.3	7.3	2.7	2	
22 South Korea	2.5	3.0	3.0	8.5	3.0	3	
23 Sri Lanka	1.5	2.0	1.7	5.2	1.7	2	
24 Taiwan	1.0	2.5	2.7	6.2	2.3	3	
25 Thailand	1.5	2.5	2.3	6.3	2.3	2	
26 Turkey	1.5	1.5	2.0	5.0	1.7	1	
27 Venezuela	2.0	1.0	1.0	4.0	1.0	1	

\* Total Score = sum of 3 sub-factor scores.

\*\* Wilshire Score based on Total Score.



**Factor 5A: Adequacy of Financial Regulation**

Source: eStandards Forum

	<u>Banking Supervision*</u>	<u>Banking Supervision Score</u>	<u>Securities Regulation*</u>	<u>Securities Regulation Score</u>	<u>Total Score**</u>	<u>Wilshire Score***</u>	<u>2005 Wilshire Score</u>	<u>Banking Supervision and Securities Regulation Scoring Breakpoints:</u>
1 Argentina	II	1.0	EN	2.0	3.0	1.5	1	3.0 = FC
2 Brazil	CP	2.5	II	1.0	3.5	1.5	1	2.5 = CP
3 Chile	CP	2.5	EN	2.0	4.5	2.5	2	2.0 = EN
4 China	ID	1.5	II	1.0	2.5	1.0	1	1.5 = ID
5 Colombia	ID	1.5	EN	2.0	3.5	1.5	1	1.0 = NC and II
6 Czech Republic	CP	2.5	EN	2.0	4.5	2.5	2	
7 Egypt	ID	1.5	EN	2.0	3.5	1.5	1	
8 Hungary	CP	2.5	CP	2.5	5.0	2.5	3	<u>Total Scoring Breakpoints:</u>
9 India	EN	2.0	II	1.0	3.0	1.5	1	3.0 = 5.5 and above
10 Indonesia	CP	2.5	II	1.0	3.5	1.5	2	2.5 = 4.5 - 5.0
11 Israel	CP	2.5	CP	2.5	5.0	2.5	3	2.0 = 4.0
12 Jordan	ID	1.5	ID	1.5	3.0	1.5	1	1.5 = 3.0 - 3.5
13 Malaysia	II	1.0	II	1.0	2.0	1.0	1	1.0 = 2.5 and below
14 Mexico	ID	1.5	EN	2.0	3.5	1.5	1	
15 Morocco	ID	1.5	NC	1.0	2.5	1.0	1	
16 Pakistan	EN	2.0	EN	2.0	4.0	2.0	1	
17 Peru	ID	1.5	II	1.0	2.5	1.0	1	
18 Philippines	EN	2.0	CP	2.5	4.5	2.5	2	
19 Poland	EN	2.0	CP	2.5	4.5	2.5	3	
20 Russia	EN	2.0	ID	1.5	3.5	1.5	1	
21 South Africa	CP	2.5	EN	2.0	4.5	2.5	1	
22 South Korea	EN	2.0	CP	2.5	4.5	2.5	2	
23 Sri Lanka	EN	2.0	II	1.0	3.0	1.5	1	
24 Taiwan	II	1.0	II	1.0	2.0	1.0	1	
25 Thailand	II	1.0	EN	2.0	3.0	1.5	1	
26 Turkey	ID	1.5	EN	2.0	3.5	1.5	1	
27 Venezuela	EN	2.0	EN	2.0	4.0	2.0	1	

\* FC = Full Compliance; CP = Compliance in Progress; EN = Enacted; ID = Intent Declared; NC = No Compliance; II = Insufficient Information.

\*\* Total Score = sum of two sub-component scores.

\*\*\* Wilshire Score based on Total Score.

**Factor 5B: Creditors' Rights**

Source: Oxford Analytica

	Creditor	Wilshire	2005	
	<u>Rights Index*</u>	<u>Score**</u>	<u>Wilshire</u>	<u>Score</u>
				<u>Scoring Breakpoints:</u>
1 Argentina	2	2.0	2	3.0 = 4
2 Brazil	2	2.0	2	2.5 = 3
3 Chile	2	2.0	2	2.0 = 2
4 China	2	2.0	2	1.5 = 1
5 Colombia	2	2.0	2	1.0 = 0
6 Czech Republic	0	1.0	1	
7 Egypt	1	1.5	1	
8 Hungary	1	1.5	1	
9 India	3	2.5	3	
10 Indonesia	4	3.0	3	
11 Israel	3	2.5	3	
12 Jordan	1	1.5	1	
13 Malaysia	3	2.5	3	
14 Mexico	1	1.5	1	
15 Morocco	3	2.5	3	
16 Pakistan	3	2.5	3	
17 Peru	2	2.0	2	
18 Philippines	4	3.0	3	
19 Poland	0	1.0	1	
20 Russia	1	1.5	1	
21 South Africa	3	2.5	3	
22 South Korea	4	3.0	3	
23 Sri Lanka	2	2.0	2	
24 Taiwan	3	2.5	3	
25 Thailand	3	2.5	3	
26 Turkey	1	1.5	1	
27 Venezuela	0	1.0	1	

\* 0 = weaker rights; 4 = stronger rights.

\*\* Wilshire Score based on Creditor Rights Index.

**Factor 5C: Shareholders' Rights**

Source: Oxford Analytica

	Shareholder Rights Index*	Wilshire Score**	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	4	2.0	2	3.0 = 7
2 Brazil	6	2.7	3	2.7 = 6
3 Chile	6	2.7	3	2.3 = 5
4 China	5	2.3	2	2.0 = 4
5 Colombia	4	2.0	2	1.7 = 3
6 Czech Republic	3	1.7	2	1.3 = 2
7 Egypt	3	1.7	2	1.0 = 1 and 0
8 Hungary	4	2.0	2	
9 India	6	2.7	3	
10 Indonesia	5	2.3	2	
11 Israel	4	2.0	2	
12 Jordan	2	1.3	2	
13 Malaysia	5	2.3	2	
14 Mexico	6	2.7	3	
15 Morocco	4	2.0	2	
16 Pakistan	5	2.3	2	
17 Peru	5	2.3	2	
18 Philippines	7	3.0	3	
19 Poland	6	2.7	3	
20 Russia	6	2.7	3	
21 South Africa	5	2.3	2	
22 South Korea	7	3.0	3	
23 Sri Lanka	3	1.7	2	
24 Taiwan	6	2.7	3	
25 Thailand	5	2.3	2	
26 Turkey	4	2.0	2	
27 Venezuela	1	1.0	1	

\* 0 = weaker rights; 7 = stronger rights.

\*\* Wilshire Score based on Shareholder Rights Index.

### Factor 6: Capital Market Openness

	(6a)	(6b)	(6c)	(6d)				
	Trade Policy	Foreign Investment	Banking/ Finance	Stock Market Openness	Total Score*	Wilshire Score**	2005 Wilshire Score	Scoring Breakpoints:
	Score	Score	Score	Score				
1 Argentina	2.0	2.0	1.5	3.0	8.5	2.0	2	3.0 = 11.0 and above
2 Brazil	1.5	2.0	2.0	2.0	7.5	1.7	2	2.7 = 10.0 - 10.5
3 Chile	2.5	2.5	2.5	3.0	10.5	2.7	3	2.3 = 9.0 - 9.5
4 China	2.0	1.5	1.5	1.0	6.0	1.3	1	2.0 = 8.0 - 8.5
5 Colombia	1.5	2.0	2.5	3.0	9.0	2.3	2	1.7 = 7.0 - 7.5
6 Czech Republic	2.5	2.5	3.0	3.0	11.0	3.0	3	1.3 = 6.0 - 6.5
7 Egypt	1.0	2.0	1.5	3.0	7.5	1.7	2	1.0 = 5.5 and below
8 Hungary	2.5	2.5	2.5	3.0	10.5	2.7	3	
9 India	1.0	2.0	1.5	1.0	5.5	1.0	1	
10 Indonesia	2.0	1.5	1.5	3.0	8.0	2.0	2	
11 Israel	2.5	2.5	2.0	3.0	10.0	2.7	3	
12 Jordan	1.5	2.0	2.5	3.0	9.0	2.3	3	
13 Malaysia	2.0	1.5	1.5	1.0	6.0	1.3	1	
14 Mexico	2.0	2.0	2.5	2.0	8.5	2.0	2	
15 Morocco	1.0	2.5	1.5	3.0	8.0	2.0	2	
16 Pakistan	1.0	2.0	2.0	2.0	7.0	1.7	1	
17 Peru	1.5	2.0	2.5	3.0	9.0	2.3	3	
18 Philippines	2.0	1.5	2.0	2.0	7.5	1.7	1	
19 Poland	2.5	2.0	2.5	3.0	10.0	2.7	3	
20 Russia	1.5	1.5	1.5	2.0	6.5	1.3	1	
21 South Africa	2.0	2.0	2.0	3.0	9.0	2.3	3	
22 South Korea	1.5	2.5	2.0	2.0	8.0	2.0	2	
23 Sri Lanka	2.0	1.5	1.5	2.0	7.0	1.7	2	
24 Taiwan	2.5	2.5	2.0	3.0	10.0	2.7	3	
25 Thailand	1.5	1.5	2.0	2.0	7.0	1.7	1	
26 Turkey	2.5	2.0	2.0	3.0	9.5	2.3	2	
27 Venezuela	1.5	1.0	1.5	3.0	7.0	1.7	1	

\* Total Score = sum of 4 sub-factor scores.

\*\* Wilshire Score based on Total Score.

**Factor 6A: Trade Policy**

Source: The Heritage Foundation's Index of Economic Freedom (WSJ)

	Trade Policy	Wilshire	2005	
	<u>Score*</u>	<u>Score**</u>	<u>Score</u>	<u>Scoring Breakpoints:</u>
1 Argentina	3.0	2.0	1	3.0 = 1.0
2 Brazil	3.5	1.5	1	2.5 = 1.5 - 2.0
3 Chile	1.5	2.5	3	2.0 = 2.5 - 3.0
4 China	3.0	2.0	1	1.5 = 3.5 - 4.0
5 Colombia	3.5	1.5	1	1.0 = 4.5 - 5.0
6 Czech Republic	2.0	2.5	2	
7 Egypt	4.5	1.0	1	
8 Hungary	2.0	2.5	2	
9 India	5.0	1.0	1	
10 Indonesia	3.0	2.0	3	
11 Israel	2.0	2.5	3	
12 Jordan	4.0	1.5	1	
13 Malaysia	2.5	2.0	2	
14 Mexico	2.5	2.0	2	
15 Morocco	5.0	1.0	1	
16 Pakistan	4.5	1.0	1	
17 Peru	3.5	1.5	1	
18 Philippines	2.5	2.0	3	
19 Poland	2.0	2.5	3	
20 Russia	3.5	1.5	2	
21 South Africa	2.5	2.0	3	
22 South Korea	3.5	1.5	2	
23 Sri Lanka	3.0	2.0	2	
24 Taiwan	2.0	2.5	3	
25 Thailand	3.5	1.5	2	
26 Turkey	2.0	2.5	2	
27 Venezuela	4.0	1.5	1	

\* 1 = policies most conducive to economic freedom; 5 = policies least conducive to economic freedom.

\*\* Wilshire Score based on Trade Policy Score.

**Factor 6B: Foreign Investment**

Source: The Heritage Foundation's Index of Economic Freedom (WSJ)

	Foreign Investment Score*	Wilshire Score**	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	3.0	2.0	2	3.0 = 1.0
2 Brazil	3.0	2.0	2	2.5 = 1.5 - 2.0
3 Chile	2.0	2.5	3	2.0 = 2.5 - 3.0
4 China	4.0	1.5	1	1.5 = 3.5 - 4.0
5 Colombia	3.0	2.0	2	1.0 = 4.5 - 5.0
6 Czech Republic	2.0	2.5	3	
7 Egypt	3.0	2.0	2	
8 Hungary	2.0	2.5	3	
9 India	3.0	2.0	2	
10 Indonesia	4.0	1.5	1	
11 Israel	2.0	2.5	3	
12 Jordan	3.0	2.0	3	
13 Malaysia	4.0	1.5	1	
14 Mexico	3.0	2.0	2	
15 Morocco	2.0	2.5	3	
16 Pakistan	3.0	2.0	1	
17 Peru	3.0	2.0	3	
18 Philippines	4.0	1.5	1	
19 Poland	3.0	2.0	2	
20 Russia	4.0	1.5	1	
21 South Africa	3.0	2.0	2	
22 South Korea	2.0	2.5	3	
23 Sri Lanka	4.0	1.5	2	
24 Taiwan	2.0	2.5	3	
25 Thailand	4.0	1.5	1	
26 Turkey	3.0	2.0	2	
27 Venezuela	5.0	1.0	1	

\* 1 = policies most conducive to economic freedom; 5 = policies least conducive to economic freedom.

\*\* Wilshire Score based on Foreign Investment Score.

**Factor 6C: Banking/Finance**

Source: The Heritage Foundation's Index of Economic Freedom (WSJ)

	Banking/ Finance	Wilshire	2005 Wilshire	
	<u>Score*</u>	<u>Score**</u>	<u>Score</u>	<u>Scoring Breakpoints:</u>
1 Argentina	4.0	1.5	1	3.0 = 1.0
2 Brazil	3.0	2.0	2	2.5 = 1.5 - 2.0
3 Chile	2.0	2.5	3	2.0 = 2.5 - 3.0
4 China	4.0	1.5	1	1.5 = 3.5 - 4.0
5 Colombia	2.0	2.5	3	1.0 = 4.5 - 5.0
6 Czech Republic	1.0	3.0	3	
7 Egypt	4.0	1.5	1	
8 Hungary	2.0	2.5	3	
9 India	4.0	1.5	1	
10 Indonesia	4.0	1.5	1	
11 Israel	3.0	2.0	2	
12 Jordan	2.0	2.5	3	
13 Malaysia	4.0	1.5	1	
14 Mexico	2.0	2.5	3	
15 Morocco	4.0	1.5	1	
16 Pakistan	3.0	2.0	1	
17 Peru	2.0	2.5	3	
18 Philippines	3.0	2.0	1	
19 Poland	2.0	2.5	3	
20 Russia	4.0	1.5	1	
21 South Africa	3.0	2.0	2	
22 South Korea	3.0	2.0	2	
23 Sri Lanka	4.0	1.5	1	
24 Taiwan	3.0	2.0	3	
25 Thailand	3.0	2.0	2	
26 Turkey	3.0	2.0	1	
27 Venezuela	4.0	1.5	1	

\* 1 = policies most conducive to economic freedom; 5 = policies least conducive to economic freedom.

\*\* Wilshire Score based on Banking/Finance Score.

**Factor 6D: Stock Market Openness**

Source: S&amp;P Global Stock Markets Factbook 2005

		Wilshire Score*	2005 Wilshire Score	Scoring Breakpoints:
	<u>Description - Foreign Investment Ceiling</u>			
1	Argentina	3.0	3	3.0 = 100% in general
2	Brazil	2.0	2	2.0 = 100% in general with some restrictions
				1.0 = Less than 100% in general
3	Chile	3.0	3	
4	China	1.0	1	
	B- and H-class shares and red chip stocks: 100%; A-class share: QFII's (Qualified Foreign Institutional Investors) only; 10% of a company for an individual QFII, 20% in aggregate in a individual company. QFII's overall investment in A class of shares are also restricted to specific USD amount permitted by China Securities Regulatory Commission.			
5	Colombia	3.0	3	
6	Czech Republic	3.0	3	
7	Egypt	3.0	3	
8	Hungary	3.0	3	
9	India	1.0	1	
	24% in general, 20% for banks. Some sectors may be higher; Individual company limits can be raised to sectoral cap subject to board and Reserve Bank of India approval.			
10	Indonesia	3.0	3	
11	Israel	3.0	3	
12	Jordan	3.0	3	
13	Malaysia	1.0	1	
	Telecommunications 61% for the first five years, 49% thereafter; insurance 51%; banking 30%; stockbroking 49%; Foreign investments of over 30% in aggregate in the voting stock of a company may require Foreign Investment Committee approval.			
14	Mexico	2.0	2	
	100% in general; some restrictions on energy and oil sectors, according to Foreign Investment Law.			
15	Morocco	3.0	3	
16	Pakistan	2.0	2	
17	Peru	3.0	3	
18	Philippines	2.0	1	
	100% in general; with some restrictions in specific sectors. The Philippine Stock Exchange reports all restrictions at the company level.			
19	Poland	3.0	3	
20	Russia	2.0	2	
21	South Africa	3.0	3	
22	South Korea	2.0	2	
	100% in general; telecommunications 49%; home shopping 33%; 30% for Korea Gas Corp; 40% for KEPCO; 49.99% for Korean Air; 0% for Seoul Broadcasting			
23	Sri Lanka	2.0	2	
	100% in general; 49% for shipping agency services; 40% for timber based industries; 49% for plantations.			
24	Taiwan	3.0	1	
25	Thailand	2.0	1	
	In general 100% via the presence of non voting depositary receipts, underlying share classes may have 49% foreign investment restrictions. Some sector restrictions may also apply.			
26	Turkey	3.0	3	
27	Venezuela	3.0	3	

\* 1 = lower level of market openness to foreigners; 3 = higher level of market openness to foreigners.



**Factor 7: Settlement Proficiency/Transaction Costs**

	(7a) Settlement Proficiency <u>Score</u>	(7b) Transaction Costs <u>Score</u>	Total Score*	Wilshire Score**	2005 Wilshire Score	Scoring Breakpoints:
1 Argentina	2.0	1.0	3.0	1.3	2	3.0 = 5.5 and above
2 Brazil	3.0	3.0	6.0	3.0	3	2.7 = 5.0
3 Chile	3.0	1.0	4.0	2.0	2	2.3 = 4.5
4 China	3.0	1.0	4.0	2.0	2	2.0 = 4.0
5 Colombia	1.5	1.0	2.5	1.0	2	1.7 = 3.5
6 Czech Republic	3.0	1.5	4.5	2.3	2	1.3 = 3.0
7 Egypt	3.0	2.5	5.5	3.0	3	1.0 = 2.5 and below
8 Hungary	3.0	2.5	5.5	3.0	3	
9 India	3.0	1.5	4.5	2.3	3	
10 Indonesia	3.0	1.5	4.5	2.3	2	
11 Israel	3.0	1.5	4.5	2.3	3	
12 Jordan	3.0	2.5	5.5	3.0	3	
13 Malaysia	3.0	1.0	4.0	2.0	3	
14 Mexico	3.0	2.0	5.0	2.7	3	
15 Morocco	3.0	1.0	4.0	2.0	3	
16 Pakistan	3.0	2.0	5.0	2.7	3	
17 Peru	3.0	2.0	5.0	2.7	3	
18 Philippines	3.0	1.5	4.5	2.3	2	
19 Poland	3.0	1.0	4.0	2.0	2	
20 Russia	3.0	1.5	4.5	2.3	3	
21 South Africa	1.0	2.5	3.5	1.7	1	
22 South Korea	3.0	1.0	4.0	2.0	2	
23 Sri Lanka	2.5	1.5	4.0	2.0	1	
24 Taiwan	3.0	1.0	4.0	2.0	2	
25 Thailand	3.0	2.0	5.0	2.7	3	
26 Turkey	3.0	1.5	4.5	2.3	3	
27 Venezuela	3.0	1.0	4.0	2.0	2	

\* Total Score = sum of 2 sub-factor scores.

\*\* Wilshire Score based on Total Score.

**Factor 7A: Settlement Proficiency**

Source: Individual Stock Exchanges

	Trading Technology Description	Trading Technology Score*	Days to Settle Trades (T + _) Description	Days to Settle Score**	Total Score***	Wilshire Score****	2005 Wilshire Score	Trading Technology Scoring Breakpoints:
1 Argentina	Partially Automated - Two systems: Open outcry/Screen-based system (SINAC) and Continuous Trading Session	2.0	3	3.0	5.0	2.0	2	3.0 = Fully Automated 2.0 = Partially Automated 1.0 = Not Automated
2 Brazil	Fully Automated - Mega Bolsa trading system is fully electronic	3.0	3	3.0	6.0	3.0	3	
3 Chile	Fully Automated - Electronic order-driven matching system (Telepregon)	3.0	2	3.0	6.0	3.0	3	
4 China	Fully Automated - Computerized order matching system	3.0	3	3.0	6.0	3.0	3	Days to Settle
5 Colombia	Fully Automated - Order-driven electronic, screen-based system (ACCIONES)	3.0	3 to 6	1.5	4.5	1.5	3	Scoring Breakpoints:
6 Czech Republic	Fully Automated - Market-making system (SPAD), automatic trading, and block trading	3.0	3	3.0	6.0	3.0	3	3.0 = 3 and below 2.5 = Between 3 and 4 2.0 = 4
7 Egypt	Fully Automated - Electronic order-driven trading system	3.0	0 to 3	3.0	6.0	3.0	3	
8 Hungary	Fully Automated - Electronic order-driven trading system	3.0	3	3.0	6.0	3.0	3	1.5 = Between 4 and 5
9 India	Fully Automated - BSE on-line trading (BOLT) system and National Exchange for Automated Trading (NEAT)	3.0	2	3.0	6.0	3.0	3	1.0 = 5 and above
10 Indonesia	Fully Automated - Jakarta Automated Trading System (JATS) and Surabaya Market information and Automated Remote Trading (S-MART)	3.0	3	3.0	6.0	3.0	3	Total Scoring Breakpoints:
11 Israel	Fully Automated - Tel Aviv Continuous Trading (TACT)	3.0	1	3.0	6.0	3.0	3	3.0 = 6.0
12 Jordan	Fully Automated - Automated, order-driven system	3.0	2	3.0	6.0	3.0	3	2.5 = 5.5
13 Malaysia	Fully Automated - Continuous auction screen based system (SCORE/WinSCORE)	3.0	3	3.0	6.0	3.0	3	2.0 = 5.0
14 Mexico	Fully Automated - Electronic board (BMV-SENTRA Capitals)	3.0	2	3.0	6.0	3.0	3	1.5 = 4.5
15 Morocco	Fully Automated - Computerized trading system	3.0	3	3.0	6.0	3.0	3	1.0 = 4.0 and below
16 Pakistan	Fully Automated - Karachi Automated Trading System (KATS)	3.0	3	3.0	6.0	3.0	3	
17 Peru	Fully Automated - Electronic Trading System (ELEX)	3.0	3	3.0	6.0	3.0	3	
18 Philippines	Fully Automated - Screen-based system (MAKTRADE)	3.0	3	3.0	6.0	3.0	3	
19 Poland	Fully Automated - WARsaw Stock Exchange Trading System (WARSET)	3.0	3	3.0	6.0	3.0	3	
20 Russia	Fully Automated - RTS Trading System	3.0	3	3.0	6.0	3.0	3	
21 South Africa	Fully Automated - SETS trading engine	3.0	5	1.0	4.0	1.0	1	
22 South Korea	Fully Automated - Order-routing System, Matching System, and Information System	3.0	2	3.0	6.0	3.0	3	
23 Sri Lanka	Fully Automated - Continuous auction screen based system	3.0	3 to 4	2.5	5.5	2.5	1	
24 Taiwan	Fully Automated - Fully Automated Trading System (FAST)	3.0	2	3.0	6.0	3.0	3	
25 Thailand	Fully Automated - Automated System for the Stock Exchange of Thailand (ASSET)	3.0	3	3.0	6.0	3.0	3	
26 Turkey	Fully Automated - Fully computerized trading system	3.0	2	3.0	6.0	3.0	3	
27 Venezuela	Fully Automated - Screen-based trading system (SIBE)	3.0	3	3.0	6.0	3.0	3	

\* 1 = not automated; 2 = partially automated; 3 = fully automated.

\*\* 1 = slower trade settlement; 3 = quicker trade settlement.

\*\*\* Total Score = sum of two sub-component scores.

\*\*\*\* Wilshire Score based on Total Score.

**Factor 7B: Transaction Costs**

Source: Individual Stock Exchanges and S&P Global Stock Markets Factbook 2005

	Capital Gains Tax	Capital Gains Tax Score*	Dividend Tax	Dividend Tax Score*	Stamp Duty**	Stamp Duty Score*	Other Charges Description**	Other Charges Score*	Total Score***	Wilshire Score****	2005 Wilshire Score	Capital Gains & Dividend Tax Scoring Breakpoints:
1 Argentina	35%	1.0	0%	3.0	0%	3.0	21%-VAT on broker commission; 0.06%-securities market fee; 0.0351%-exchange fee	1.0	8.0	1.0	2	3.0 = 0%
2 Brazil	0%	3.0	0%	3.0	0%	3.0	0.035%-transaction and clearing fee	2.5	11.5	3.0	2	2.5 = 0.01% - 5%
3 Chile	17%	1.0	18%	1.0	0%	3.0	18%-VAT on broker commission; 0.05%-0.50%-exchange fee	1.0	6.0	1.0	1	2.0 = 6% - 10%
4 China	33%	1.0	10%	2.0	0.2%	2.5	0.03%-trading tax	2.5	8.0	1.0	1	1.5 = 11% - 15%
5 Colombia	38.5%	1.0	0%	3.0	1.5% on subcustodian fees	1.0	\$591 per month fixed charges; 0.015%-0.025% per operation-variable charge	2.0	7.0	1.0	1	1.0 = 16% and greater
6 Czech Republic	24%	1.0	15%	1.5	0%	3.0	none	3.0	8.5	1.5	1	Stamp Duty
7 Egypt	0%	3.0	0%	3.0	L.E. 0.4 per invoice	2.0	0.0125%-bourse levy; 0.0125% per transaction-settlement fee	2.5	10.5	2.5	2	Scoring Breakpoints:
8 Hungary	0%	3.0	15%	1.5	0%	3.0	none	3.0	10.5	2.5	2	3.0 = 0%
9 India	20%	1.0	0%	3.0	0.5% on physical share purchases	1.5	none	3.0	8.5	1.5	2	2.5 = 0.01% - 0.24%
10 Indonesia	0.1%	2.5	15%	1.5	0%	3.0	0.04%-0.12%-trading fee	2.0	9.0	1.5	1	2.0 = 0.25% - 0.49%
11 Israel	15%	1.5	25%	1.0	0%	3.0	none	3.0	8.5	1.5	2	1.5 = 0.50% - 0.74%
12 Jordan	0%	3.0	0%	3.0	0%	3.0	0.14%-exchange fee	1.5	10.5	2.5	2	1.0 = 0.75% and greater
13 Malaysia	0%	3.0	28%	1.0	RM 1.00 for every MYR 1,000.00 (or fractional part of value of securities) with a max MYR200.00 per contract	2.0	0.04%-clearing fee payable by both buyer and seller with a maximum of MYR500 per contract(on-market); brokerage rates for institutions are negotiable with a maximum of 0.7% of contract value	1.0	7.0	1.0	2	Other Charges
14 Mexico	29%	1.0	0%	3.0	0%	3.0	none	3.0	10.0	2.0	2	Scoring Breakpoints:
15 Morocco	10%	2.0	10%	2.0	0%	3.0	7%-VAT; 0.6%-brokerage tax; 0.2%-settlement tax; 0.1%-stock exchange tax	1.0	8.0	1.0	3	3.0 = none
16 Pakistan	0%	3.0	10%	2.0	0.01 PKR on deposits; 0.15 PKR on withdrawals	2.0	none	3.0	10.0	2.0	2	2.5 = 0.01% - 0.04%
17 Peru	0%	3.0	0%	3.0	0%	3.0	18%-sales tax applied to sum of brokerage fees and other fees; 0.0825%-Bolsa fee; 0.07%-Cavali fee; 0.05%-CONSAEV fee	1.0	10.0	2.0	2	2.0 = 0.05% - 0.09%
18 Philippines	0%	3.0	15%	1.5	0%	3.0	0.5%-transaction tax (for sells- in lieu of capital gains); 1 basis point p.a. or 0.000008333 per month based on market value of holdings – PDTC Depository Maintenance Fee (inclusive of VAT); 0.0001 or 1 basis point based on gross trade value – SCCP Clearing Fee (inclusive of VAT); PHP 20 cancellation fee plus 10% VAT only if security is certified (for sells) by transfer agent	1.0	8.5	1.5	1	1.5 = 0.10% - 0.14%
19 Poland	19%	1.0	19%	1.0	0%	3.0	none	3.0	8.0	1.0	1	1.0 = 0.15% and greater
20 Russia	24%	1.0	10%	2.0	0%	3.0	none	3.0	9.0	1.5	2	Total Scoring Breakpoints:
21 South Africa	0%	3.0	0%	3.0	0.25%	2.0	0.0003%-insider protection levy	2.5	10.5	2.5	2	3.0 = 11.5 - 12.0
22 South Korea	25%	1.0	16.5%	1.0	0%	3.0	0.30%-trading fee	1.0	6.0	1.0	1	2.5 = 10.5 - 11.0
23 Sri Lanka	0%	3.0	10%	2.0	0%	3.0	1.025%-1.225%-commission on brokerage; 0.2%-share transaction levy	1.0	9.0	1.5	2	2.0 = 9.5 - 10.0
24 Taiwan	0%	3.0	20%	1.0	0%	3.0	Neogtiable commission with a maximum of 0.1425%; 0.3%-transaction tax on sell side	1.0	8.0	1.0	1	1.5 = 8.5 - 9.0
25 Thailand	15%	1.5	10%	2.0	0%	3.0	none	3.0	9.5	2.0	2	1.0 = 8.0 and less
26 Turkey	33%	1.0	10%	2.0	0%	3.0	none	3.0	9.0	1.5	2	
27 Venezuela	34%	1.0	15%	1.5	0%	3.0	1%-sales tax; 0.096875%-VAT	1.0	6.5	1.0	1	

\* 1 = higher taxes/costs; 3 = lower taxes/costs.

\*\* Unless otherwise noted, percentages are as of price\*shares; VAT = value added tax.

\*\*\* Total Score = sum of 4 sub-component scores.

\*\*\*\* Wilshire Score based on Total Score.

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# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## STATEMENT OF INVESTMENT POLICY FOR

### PERMISSIBLE EQUITY FOR EMERGING EQUITY MARKETS

October 17, 2005

*This Policy is effective immediately upon adoption and supersedes all previous permissible equity for emerging equity markets policies.*

#### I. PURPOSE

This document sets forth the investment policy ("the Policy") for the permitted standards and parameters for the inclusion of country markets permitted for investment.

#### II. STRATEGIC OBJECTIVE

The strategic objective is to set minimum acceptable standards of investibility for emerging country equity markets to be permissible for investment by CalPERS to control risk and enhance return.

#### III. RESPONSIBILITIES AND DELEGATIONS

- A. The **System's Investment Committee** ("Investment Committee") is responsible for approving and amending the Policy and delegated responsibility for administering the Policy to the System's Investment Staff (Delegation Nos. 89-13 and 95.50).
- B. The **System's Investment Staff** ("the Staff") shall review written policies and procedures of the Managers concerning compliance with the Policy. The Staff shall monitor reports from the Managers and the System's custodian to ensure the equity markets program is in compliance with this Policy.
- C. The **General Pension Consultant** shall review each country equity market's comparison to the requirements of this Policy for the purposes of establishing which markets meet the minimum thresholds of acceptability in accordance with this Policy.
- D. The **External Managers** shall be delegated the responsibility of country market and stock selection in accordance with this Policy and their guidelines that shall require minimum stock selection standards and reporting requirements on how individual companies

meet minimum acceptable standards, including the Global Sullivan Principles of Corporate Social Responsibility.

#### IV. BENCHMARK

Not applicable.

#### V. MASTER LIST OF COUNTRIES

- A. The master list of emerging country markets shall derive from those included in the country lists of the major emerging equity markets index providers.
- B. Each country included for review must meet the World Bank definition of an emerging country based on its per capita GNI (Gross National Income). The World Bank revisits this per capita standard annually.

#### VI. FACTORS OF EVALUATION

- A. The factors of evaluation shall include those that can be generalized to the entire country and those that pertain specifically to the public equity market within each country. The CalPERS Board reserves the right to add, remove, revise or define factors in its sole discretion. Factors, known as the macro-factors, may be further sub-divided into sub-factors to better focus the full intent of the macro-factor.
- B. Country Factors
  - 1. Political Stability: Political stability, including progress towards the development of basic democratic institutions and principles, such as guaranteed elimination of human rights violations (such as torture), and a strong and impartial legal system, all of which are necessary to ensure political stability, support free market development, and attract and retain long-term sources of capital. This macro-factor shall include the following sub-factors:
    - a. Civil Liberties: The extent to which countries permit freedom of expression, association and organizational rights, rule of law and human rights, free trade unions and effective collective bargaining, personal autonomy and economic rights. A score of 3 (highest) means that a country has relatively good civil liberties and a score of 1 (lowest) means they are poor.



- b. **Independent Judiciary and Legal Protection:** The extent to which countries have independent judiciaries, the degree to which or the absence of irregular payments made to the judiciary and the extent to which there is a trusted legal framework that honors contracts and clearly delineates ownership of and protects financial assets. A score of: 1 (lowest) to 3 (highest) is used where the higher score indicates greater overall legal protection.
  - c. ***Political Risk:*** The extent to which there exists government stability, a high quality of socioeconomic conditions, and a positive investment profile. Toward these ends this sub-factor evaluates the extent of internal and external conflict, corruption, the military and religion in politics, law and order, ethnic tensions, democratic accountability and bureaucratic quality. A score of 1 (lowest) to 3 (highest) is used where the highest score means less overall political risk exists in that country.
2. **Transparency:** Financial transparency, including elements of a free press necessary for investors to have truthful, accurate and relevant information on the conditions in the countries and companies in which they are investing. This macro-factor shall include the following sub-factors:
- a. ***Freedom of the Press:*** The structure of the news delivery system in a country and the laws and their promulgation with respect to their influence of the news, the degree of political influence and control, economic influences on the news and the degree to which there are violations against the media with respect to physical violations and censorship. A score of 3 means the press in a country is free and a score 1 means it is not free.
  - b. ***Accounting Standards:*** The extent to which publicly traded companies in the country utilize either US GAAP (Generally Accepted Accounting Principles) or IAS (International Accounting Standards) in financial reporting, and whether the country is a member of the International Accounting Standards Council. A score of 1 to 3 is used where 1 means IAS or US GAAP standards are not used and 3 (highest) means either

IAS or US GAAP is used for financial reporting.

- c. *Monetary and Fiscal Transparency:* The extent to which governmental monetary and fiscal policies and implementation are publicly available in a clear and timely manner, in accordance with international standards. A score of 1 (lowest) to 3 (highest) is used where the higher score indicates the greatest transparency.
  - d. *Stock Exchange Listing Requirements:* This sub-factor evaluates the stringency of stock exchange listing requirements for public companies with respect to frequency of financial reporting, the requirement of annual independent audits and minimum financial viability. A score of 3 means the listing requirements are most stringent, and a score of 1 means they are the least stringent.
3. *Productive Labor Practices:* To facilitate economically-productive labor practices, markets shall be evaluated based on their ratification of and adherence to the International Labor Organization's (ILO) principles, which cover labor rights and prohibitions on abusive labor practices, and the degree of effectiveness of implementation through relevant laws, enabling regulations and their degree of enforcement through the judiciary process. This macro-factor shall have the following sub-factors:
- a. The extent to which the country has ILO ratification for the eight core conventions. Each country will be graded on:
    - 1) Ratified
    - 2) Pending ratification
    - 3) Not ratified
    - 4) Denounced
  - b. *Quality of Enabling Legislation:* Countries shall be evaluated on whether laws exist that explicitly protect the right described in the ILO Convention, or portions of it, or whether laws exist that explicitly prohibit the Convention right, or portions of it. The objective is to evaluate fundamentally, how well the right described in the convention is protected by the law. For each law, in addition to identifying if the law exists, any shortcomings in its adequacy or completeness with reference to the relevant ILO convention shall be

evaluated, along with information about the regulations that implement the relevant laws.

- c. *Institutional Capacity:* The governmental administrative bodies with enforcement responsibility for enforcing labor law that exists at the national, regional and local level.
- d. *Effectiveness of Implementation:* The procedures that exist for enforcement and monitoring of enforcement of laws in the convention areas and evidence that exists that these procedures are working effectively; the existence of a clear grievance process; evidence that workers and/or unions utilize this grievance process; the extent to which penalties provided for in the laws are levied; and the evidence that penalties have deterrence value.

The sub-factor scores total to a maximum of 40 points per country. The sub-factors are more heavily-weighted toward the quality of enabling legislation and the effectiveness of implementation. The *Productive Labor Practices* factor scores have been rescaled on a one (lowest) to three (highest) basis, where a score of three indicates the most effective labor practices.

## C. Market Factors

- 1. *Market Liquidity and Volatility:* This segment measures the ability to buy or sell assets in a country in a timely manner without adversely affecting security prices. Also included in this category is an analysis of each country's stock market return volatility, including currency risk. Sub-factors under consideration for this category are listed below.
  - a. *Market Capitalization:* Market capitalization represents the overall size of a country's stock market. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of market capitalization (i.e., larger market).
  - b. *Change in Market Capitalization:* This factor represents the growth of a country's stock market over the last five years. A score of one (lowest) to three

(highest) is assigned, with higher scores reflecting a higher level of market capitalization growth.

- c. *Average Monthly Trading Value:* This factor represents the average dollar value of shares traded, relative to the size of each market (i.e., market capitalization). A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of trading.
  - d. *Growth in Listed Companies:* This factor represents the number of companies in each country that are publicly traded and are listed on a local stock exchange and their growth over the last five years. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting the growth of listed companies.
  - e. *Market Volatility (as measured by standard deviation):* This factor represents the level of return volatility (risk) over the last five years in each country's stock market, attributable to both currency volatility and local market volatility. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a lower level of volatility.
  - f. *Return/Risk Ratio:* This factor represents the percentage of total return achieved per percentage of risk in each market. This category was created so as not to penalize those markets that display a high level of positive volatility. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher return/risk ratio.
2. *Market Regulation/Legal System/Investor Protection:* This category analyzes a broad set of factors that together comprise a large portion of the investment climate within a country. This category attempts to identify the degree of legal protection for foreign investors within a country, as well as shareowner and creditors' rights. The following sub-factors are analyzed:
- a. *Adequacy of Financial Regulation:* A score of one (lowest) to three (highest) is assigned, with higher scores reflecting greater financial regulatory and supervisory stringency.

- b. *Bankruptcy/Creditors' Rights:* This segment reflects the adequacy of creditors' rights in each market, in the case of bankruptcy proceedings/reorganization. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of creditors' rights.
  - c. *Shareowners' Rights:* This segment reflects the Adequacy of shareowners rights in each market. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting stronger regulations regarding shareowners' rights.
3. *Capital Market Openness:* Openness to foreign investment is a critical barometer of a government's commitment to free market policies. Markets are viable if they have the ability to attract and retain long-term sources of capital. Further, markets are evaluated based on the level of restriction imposed on foreign investors. The following sub-factors are evaluated:
- a. *Trade Policy:* This sub-factor measures the degree to which there is oppressive government interference in free trade through deterrents such as trade barriers and punitive tariffs.
  - b. *Foreign Investment:* This sub-factor examines governmental barriers to the free flow of capital from foreign sources through the imposition of restrictions on foreign ownership of local assets, repatriation restrictions and un-equal treatment of foreigners and locals under the law.
  - c. *Banking and Finance:* This sub-factor looks at undue government control of banks and financial institutions and measures such factors as government ownership of banks and allocation of credit and the degree of freedom financial institutions have to offer all types of financial services, securities and insurance policies. Protectionist banking regulations against foreigners are also evaluated.
  - d. *Stock Market Foreign Ownership Restrictions:* This sub-factor examines the extent to which the local stock market restricts share ownership of public companies by foreigners.

A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a higher level of market openness.

4. Settlement Proficiency/Transaction Costs: Cost effective, efficient settlement of securities transactions is critical as the world moves to one-day settlement. This factor measures the degree of efficiency and the cost effectiveness of transacting in the markets included in this analysis.
  - a. *Settlement Proficiency*: This segment illustrates whether a country's trading and settlement is automated and measures the success of the market in settling transactions in a timely, efficient manner. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting an automated, efficient operational process.
  - b. *Transaction Costs*: This segment measures the costs associated with trading in a particular market and includes stamp taxes and duties, amount of dividends and income taxed, and capital gains taxes. High trading costs tax the returns and increase the hurdle rate of managers investing in these markets. Markets that impose a high level of taxes, or have a high level of trading costs, receive a low score. A score of one (lowest) to three (highest) is assigned, with higher scores reflecting a lower level of transaction costs. *Please note that transaction costs relating to market impact associated with liquidity is reflected in the first category: Market Liquidity/Volatility.*

## VII. EVALUATION METHODOLOGY

- A. *Frequency of Evaluation* – Annually
- B. *Source of Evaluation* – Third party expert sources shall be used to evaluate macro-factors and sub-factors. These third party sources where possible shall be readily available public sources recognized as having expert insight into the macro-factor or sub-factor subject to evaluation. Each source shall evaluate each country or market comparatively across the macro-factor or sub-factor for which it is being utilized. In the event there is no public or readily available third party source, the CalPERS Board, in its sole discretion, may contract with a source, consultant or other vendor for a custom evaluation for CalPERS according to its specifications. If a custom evaluation is utilized, CalPERS shall make the evaluation available for public

inspection. All third party sources utilized are subject to the review and approval of the CalPERS Board in its sole discretion. The CalPERS Board reserves the right to make changes in the third party sources from one annual evaluation period to the next without notice.

- C. *Aggregating the Individual Evaluations* – The General Pension Consultant shall collect the third party source evaluations and shall aggregate them according to a three-point scale: 3 points for a superior evaluation, 2 points for an acceptable evaluation and 1 point for an unacceptable evaluation. Each sub-factor shall be scored according to this three point scale, and where necessary, rescaling the scoring methodology of the third party source. The sub-factors of each macro-factor shall be weighted to derive a score for the macro-factor of which the sub-factors are part. The macro-factors shall be weighted to derive a score for each country that also shall be evaluated on a three point scale. The three point scale shall be calculated to a whole number for the 2005 evaluation, and shall be calculated to one decimal place beginning with the 2006 evaluation, for both sub-factors and macro-factors. At the country level, the calculation of scores shall be carried out to three decimal places and rounded to two decimal places for the 2005 evaluation, and shall be calculated to two decimal places and rounded to one decimal place beginning with the 2006 evaluation.
- D. *Weighting Scheme for Factors*
1. The sub-factors, unless otherwise determined by the CalPERS Board, shall be equal-weighted, or weighted in accordance with the weights used by the third party source in the event one third party source is used for the evaluation of all sub-factors within a macro-factor.
  2. The macro-factors shall be divided into Country Factors and Market Factors with country and market factors each receiving in aggregate a weight of 50% of a country market's total score. Within the country factors and market factors the macro-factors shall be equal-weighted.
  3. The CalPERS Board reserves the right to modify the weighting of any macro-factor or sub-factor in its sole discretion from one annual evaluation period to the next.
- E. *Ranking and Scoring Thresholds of Permissibility*
1. The CalPERS Board reserves the right to establish the threshold of minimum acceptability for a country market in its sole discretion and change it from one evaluation period to the next at its discretion. A country market currently shall receive a total weighted score of at least 2.00 on a three point scale for a determination of permissibility.

2. Scoring thresholds based on the three point scale outlined in Section VII. C. for the factors shall be established at levels that are reasonably comparable from one evaluation period to the next to determine the degree to which a country market is improving or deteriorating relative to the standards of evaluation set by the CalPERS Board, and shall be disclosed in the supporting tables for the sub-factors. In the case where a new factor is introduced or is significantly modified the thresholds from one year to the next may not be comparable, but shall be reviewed and approved by the CalPERS Board.
3. The country markets shall be ranked from the highest score to the lowest score for the purposes of determining the threshold for permissibility.
4. For the purposes of this Policy, American Depositary Receipts and Global Depositary Receipts that are traded in approved markets are permissible provided that the issuer's home market, based on the country where it is headquartered, is permissible.

#### **VIII. REPORTING PROCEDURES**

- A. Annually the General Pension Consultant shall prepare a report with the evaluations of the country markets in accordance with the Policy. This report shall include at a minimum:
  1. This list of countries subject to evaluation and the index publishers used to develop that list.
  2. A description of the evaluation methodology.
  3. The list of factors on which country markets are evaluated with their descriptions or definitions.
  4. The weighting scheme for macro and sub-factors.
  5. The scores for each country market with a comparison to the previous year.
  6. Identification of the third party sources used for evaluation with complete contact information provided to facilitate direct contact by countries with those sources.
  7. A copy of this Policy with procedures and a timetable for how countries or interested parties can bring forth comments or new information.
- B. The CalPERS Board shall make this annual report available for public inspection through the CalPERS web site or its own direct distribution at its discretion.
- C. Annual Timetable for Reporting and Public Comment



1. An exposure draft of the annual report shall be provided for submission to CalPERS by January 31<sup>st</sup>, or the first business day after January 31<sup>st</sup> if that date should fall on a weekend.
2. The draft report shall be placed on CalPERS' web site and a copy of said draft report shall be sent to the Washington, DC embassy of each evaluated country and to the head of each country's primary stock exchange.
3. Countries and other interested parties shall have 30 days to review the report and provide feedback or additional information to be considered.
4. CalPERS' third party sources shall then have 30 days to review any new information that has been submitted in a timely manner for independent verification and vetting.
5. At the February Investment Committee meeting, the draft report shall be presented as an information item. An interim posting at the March Investment Committee meeting shall be provided, and formal adoption of final recommendation shall occur at the April Investment Committee meeting of each calendar year.
6. The CalPERS Board reserves the right to modify this timetable in its sole discretion from one annual evaluation to the next.

## **IX. PERMISSIBLE EQUITY LIST**

- A. Country markets can only be included on the list of permissible countries for investment after an adoption of a resolution by the CalPERS Board at a publicly-noticed Investment Committee meeting. Inclusion on the list of permissible countries does not compel CalPERS actually to commit assets to that country's equity market if in its sole discretion it is not considered economically attractive to do so. CalPERS may at its discretion delegate that decision to either its Staff or external money managers as they may be employed.
- B. Countries, conversely, can only be removed from the list of permissible countries in a similar manner, by adoption of a resolution. If investments in a country's public equity market exist at the time of a resolution to eliminate that country from investment the CalPERS Board shall direct the manner of divestment in its sole

discretion, which may include the acceptance of a recommendation from its Staff or General Pension Consultant on the best approach to divestment.

## **X. CURE PERIOD**

- A. Cure Period – The CalPERS Board in its discretion may grant a country a cure period of up to one year before a decision to remove that country from the permissible list of investments is made. In the event that the CalPERS Board in its sole discretion grants a cure period, the following procedures shall apply:
  - 1. Countries that are granted a cure period by resolution of the CalPERS Board at a publicly-noticed Investment Committee meeting, shall be notified formally by the General Pension Consultant after the Investment Committee meeting in April of the year in question. Notification will be sent to the Washington DC embassy of the affected country and the head of its principal stock exchange.
- B. The notification shall include a procedure document that must be followed. The procedures shall include:
  - 1. A referral to the third party sources CalPERS uses for the analysis.
  - 2. The timeline that is to be strictly adhered to for the country's response.
  - 3. The need to formally notify the General Pension Consultant and CalPERS of the intent to challenge or comment on the preliminary report.
  - 4. The requirement to include written evidence or support to back up the claim made that challenges the preliminary report that shall be sent simultaneously to the General Pension Consultant and the appropriate third party sources.
  - 5. The requirement of the challenger or commenter or its agents to meet with any appropriate third party source before the end of the cure period, i.e. before February 28th of the following year of the year in question, allowing sufficient time for the third party source to vet the information that is provided from the meeting(s) by the February 28th deadline. In the event a third party source believes that it has insufficient time to vet the challenge or the new information

provided, it shall immediately notify the General Pension Consultant who shall inform CalPERS at its March Investment Committee meeting. The CalPERS' Investment Committee can determine in its discretion to grant more time or adhere to the stated schedule.

6. The cure period shall end as of March 31st of the following calendar year for the resubmission to and vote of the Investment Committee at its April meeting.

Adopted by the Investment Committee: October 18, 2004

Revised by the Policy Subcommittee: September 16, 2005

Adopted by the Investment Committee: October 17, 2005

## REMONSTRATION PROCEDURES

1. Remonstrations shall be governed by the “Statement of Investment Policy for Permissible Equity Policy of Emerging Equity Markets, “October 18, 2004”, approved by the Investment Committee of CalPERS, a copy of which is included in this report.
2. Remonstrations shall pertain solely to the factors evaluated in this analysis and shall pertain only to the presentation of new or more correct information that is, or shall be made as part of this remonstrations process, publicly available.
3. Physical documentation of evidence to support the remonstrator’s assertion or position shall absolutely be provided, without exception.
4. Suggestions regarding the methodology employed or other considerations that would require a change in the subject investment policy or a third party source can be submitted in writing, but shall be considered outside of this remonstrations process as such consideration is the sole purview of the CalPERS Investment Committee. Remonstrations of points of fact or judgment pertaining to the factors in this report are the purview of the independent third party sources used in the preparation of this report, the contacts for which are also included herein.
5. Governments or interested parties may submit a notice to remonstrate by email to [permissiblemarkets@wilshire.com](mailto:permissiblemarkets@wilshire.com) and the appropriate third party source by March 2, 2006 by 7:00 am Pacific Standard Time in the United States, with “Notice of Remonstrations” clearly indicated in the subject line of the email. The Notice of Remonstrations shall clearly:
  - a. Identify the macro-factor or sub-factor subject to remonstrations.
  - b. Provide a description of the nature of the remonstrations.
  - c. Provide a copy of the physical documentation as evidence to support the remonstrator’s position. If proof of the remonstrator’s position is not provided with the Notice to Remonstrate, the Notice will be rejected. Merely indicating a desire to remonstrate without having the full documentation to support the remonstrator’s position accompanying the Notice to Remonstrate is insufficient.
  - d. Provide submission of same in 5. (c) above to the appropriate third party source by March 2, 2006 at 7:00 AM, Pacific Standard Time.
  - e. Provide all information in English.
6. The remonstrator shall bear the responsibility, at its own expense, to convince the third party source to change its evaluation of the affected factor(s) for the country that is the subject of the remonstrations, and shall convince the third party source to notify [permissiblemarkets@wilshire.com](mailto:permissiblemarkets@wilshire.com) of its decision to revise its evaluation.
7. The third party source(s) shall have until April 1, 2006 to vet the information provided by the remonstrator and to make any decision regarding revising its evaluation, and submit that change to [permissiblemarkets@wilshire.com](mailto:permissiblemarkets@wilshire.com).
8. If a remonstrator finds that a third party source is non-responsive, [permissiblemarkets@wilshire.com](mailto:permissiblemarkets@wilshire.com) shall be notified immediately. However, non-responsive does not mean disagreement with the remonstrator’s position. If the remonstrator cannot convince the third party source of its position, neither CalPERS nor Wilshire Associates will interfere with the third party source’s independent sole judgment

# 1-Decimal Impact Analysis

- The exhibit below shows the scores from the January 31, 2005 Exposure Draft with the country scores rounded to 1-decimal place (Change #1).

	<i>Factors</i>	Country Factors			Market Factors				
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	
	<i>Weights</i>	16.7%	16.7%	16.7%	12.5%	12.5%	12.5%	12.5%	100%
	<i>Subtotal Weights</i>	50%			50%				100%
		Political Stability Score	Transparency Score	Productive Labor Practices Score	Market Liquidity and Volatility Score	Market Regulation/ Legal System/ Investor Protection Score	Capital Market Openness Score	Settlement Proficiency/ Transaction Costs Score	2005 Score
1	Hungary	3	3	3	3	2	3	3	2.9
2	Czech Republic	3	3	3	3	2	3	2	2.8
3	Poland	2	3	3	3	3	3	2	2.7
4	Taiwan	3	3	2	3	3	3	2	2.7
5	South Korea	3	3	2	3	3	2	2	2.6
6	Chile	3	2	2	3	3	3	2	2.5
7	Israel	2	2	3	2	3	3	3	2.5
8	South Africa	3	3	2	3	2	3	1	2.5
9	Brazil	2	3	2	2	2	2	3	2.3
10	India	2	3	1	3	3	1	3	2.3
11	Jordan	2	2	2	3	1	3	3	2.3
12	Peru	1	2	2	3	2	3	3	2.2
13	Malaysia	2	3	1	3	2	1	3	2.1
14	Thailand	2	3	1	3	2	1	3	2.1
15	Turkey	2	2	2	3	1	2	3	2.1
16	Mexico	2	2	1	3	2	2	3	2.1
17	Argentina	2	2	3	1	2	2	2	2.0
18	Philippines	1	3	2	2	3	1	2	2.0
19	Sri Lanka	2	2	2	3	2	2	1	2.0
20	Indonesia	1	2	1	3	3	2	2	1.9
21	Morocco	2	1	1	2	2	2	3	1.8
22	Russia	1	2	1	3	2	1	3	1.8
23	Colombia	1	2	1	2	2	2	2	1.7
24	Egypt	1	1	1	3	1	2	3	1.6
25	Pakistan	1	1	1	3	2	1	3	1.6
26	China	1	1	1	3	2	1	2	1.5
27	Venezuela	1	2	2	1	1	1	2	1.5

# 1-Decimal Impact Analysis

- The exhibit below shows the results of the 2005 analysis with the macro-factors and sub-factors scored on 1-decimal place scales (Change #2). The country scores are scored to 2-decimal places to show the impact of Change #2 in isolation.

		Country Factors			Market Factors						
		Factors			Weights			Subtotal Weights			
		(1)	(2)	(3)	(4)	(5)	(6)	(7)			
		16.7%	16.7%	16.7%	12.5%	12.5%	12.5%	12.5%	100%		
		50%			50%				100%		
		Political Stability	Transparency	Productive Labor Practices	Market Liquidity and Volatility	Market Regulation/ Legal System/ Investor Protection	Capital Market Openness	Settlement Proficiency/ Transaction Costs	1-decimal 2005 Score	2005 Score	Difference
		Score	Score	Score	Score	Score	Score	Score	Score	Score	
1	Hungary	2.7	2.7	3.0	2.7	2.0	2.7	2.7	2.66	2.88	-0.21
2	Czech Republic	2.7	2.7	3.0	2.7	2.0	2.7	2.3	2.61	2.75	-0.14
3	Chile	3.0	2.3	2.3	2.7	2.7	3.0	2.0	2.57	2.54	0.02
4	Poland	2.3	2.7	3.0	2.7	2.3	2.7	2.0	2.55	2.71	-0.16
5	South Korea	2.7	2.7	2.3	3.0	3.0	2.0	2.0	2.53	2.58	-0.05
6	Israel	2.0	2.3	2.7	2.3	2.7	2.7	2.7	2.47	2.54	-0.08
7	Taiwan	2.7	2.7	2.0	3.0	2.3	2.0	2.0	2.40	2.71	-0.31
8	South Africa	2.3	3.0	2.3	2.7	2.3	2.3	1.7	2.39	2.46	-0.07
9	Brazil	1.7	2.7	2.0	2.3	2.3	1.7	3.0	2.23	2.29	-0.06
10	Mexico	2.0	2.3	1.7	2.7	2.0	2.0	2.7	2.18	2.08	0.09
11	Turkey	2.0	2.3	2.0	2.3	1.7	2.0	3.0	2.18	2.13	0.05
12	Thailand	2.0	2.7	1.7	2.7	2.0	1.3	2.7	2.15	2.13	0.03
13	Peru	1.3	2.3	2.3	2.3	2.0	2.3	2.7	2.15	2.21	-0.06
14	Jordan	2.0	2.0	2.0	2.7	1.0	2.3	3.0	2.13	2.25	-0.13
15	Malaysia	2.3	2.3	1.3	3.0	2.0	1.3	2.7	2.11	2.13	-0.02
16	Philippines	1.3	3.0	1.7	1.7	3.0	1.3	2.3	2.04	2.00	0.04
17	Russia	1.3	2.0	1.7	2.7	2.0	1.7	3.0	2.01	1.79	0.22
18	Argentina	1.3	2.3	2.7	1.3	2.0	2.0	2.0	1.96	2.04	-0.08
19	Morocco	2.0	1.7	1.3	2.0	2.0	2.0	3.0	1.96	1.79	0.17
20	India	1.7	2.3	1.0	3.0	2.3	1.0	2.7	1.96	2.25	-0.29
21	Indonesia	1.3	2.0	1.0	2.7	2.7	2.0	2.3	1.93	1.92	0.01
22	Egypt	1.3	1.3	1.7	2.7	1.3	2.0	3.0	1.84	1.63	0.22
23	Pakistan	1.0	1.7	1.0	3.0	2.3	1.3	3.0	1.82	1.63	0.19
24	Sri Lanka	1.7	2.0	2.0	2.3	1.7	1.7	1.0	1.79	2.00	-0.21
25	Colombia	1.0	1.7	1.7	2.0	1.3	2.3	2.0	1.68	1.67	0.02
26	China	1.7	1.3	1.0	3.0	2.0	1.0	2.0	1.67	1.50	0.17
27	Venezuela	1.0	1.7	2.0	1.3	1.0	1.7	2.0	1.53	1.46	0.08

# 1-Decimal Impact Analysis

- The exhibit below shows the results of the 2005 analysis with all of the country, macro-factor, and sub-factor scores on 1-decimal place scales (both Changes #1 and #2).

	Factors	Country Factors			Market Factors						
		(1)	(2)	(3)	(4)	(5)	(6)	(7)			
		16.7%	16.7%	16.7%	12.5%	12.5%	12.5%	12.5%	100%		
		50%			50%				100%		
		Political Stability Score	Transparency Score	Productive Labor Practices Score	Market Liquidity and Volatility Score	Market Regulation/ Legal System/ Investor Protection Score	Capital Market Openness Score	Settlement Proficiency/ Transaction Costs Score	1-decimal 2005 Score	2005 Score	Difference
1	Hungary	2.7	2.7	3.0	2.7	2.0	2.7	2.7	2.7	2.88	-0.21
2	Czech Republic	2.7	2.7	3.0	2.7	2.0	2.7	2.3	2.6	2.75	-0.14
3	Chile	3.0	2.3	2.3	2.7	2.7	3.0	2.0	2.6	2.54	0.02
4	Poland	2.3	2.7	3.0	2.7	2.3	2.7	2.0	2.5	2.71	-0.16
5	South Korea	2.7	2.7	2.3	3.0	3.0	2.0	2.0	2.5	2.58	-0.05
6	Israel	2.0	2.3	2.7	2.3	2.7	2.7	2.7	2.5	2.54	-0.08
7	Taiwan	2.7	2.7	2.0	3.0	2.3	2.0	2.0	2.4	2.71	-0.31
8	South Africa	2.3	3.0	2.3	2.7	2.3	2.3	1.7	2.4	2.46	-0.07
9	Brazil	1.7	2.7	2.0	2.3	2.3	1.7	3.0	2.2	2.29	-0.06
10	Mexico	2.0	2.3	1.7	2.7	2.0	2.0	2.7	2.2	2.08	0.09
11	Turkey	2.0	2.3	2.0	2.3	1.7	2.0	3.0	2.2	2.13	0.05
12	Thailand	2.0	2.7	1.7	2.7	2.0	1.3	2.7	2.2	2.13	0.03
13	Peru	1.3	2.3	2.3	2.3	2.0	2.3	2.7	2.1	2.21	-0.06
14	Jordan	2.0	2.0	2.0	2.7	1.0	2.3	3.0	2.1	2.25	-0.13
15	Malaysia	2.3	2.3	1.3	3.0	2.0	1.3	2.7	2.1	2.13	-0.02
16	Philippines	1.3	3.0	1.7	1.7	3.0	1.3	2.3	2.0	2.00	0.04
17	Russia	1.3	2.0	1.7	2.7	2.0	1.7	3.0	2.0	1.79	0.22
18	Argentina	1.3	2.3	2.7	1.3	2.0	2.0	2.0	2.0	2.04	-0.08
19	Morocco	2.0	1.7	1.3	2.0	2.0	2.0	3.0	2.0	1.79	0.17
20	India	1.7	2.3	1.0	3.0	2.3	1.0	2.7	2.0	2.25	-0.29
21	Indonesia	1.3	2.0	1.0	2.7	2.7	2.0	2.3	1.9	1.92	0.01
22	Egypt	1.3	1.3	1.7	2.7	1.3	2.0	3.0	1.8	1.63	0.22
23	Pakistan	1.0	1.7	1.0	3.0	2.3	1.3	3.0	1.8	1.63	0.19
24	Sri Lanka	1.7	2.0	2.0	2.3	1.7	1.7	1.0	1.8	2.00	-0.21
25	Colombia	1.0	1.7	1.7	2.0	1.3	2.3	2.0	1.7	1.67	0.02
26	China	1.7	1.3	1.0	3.0	2.0	1.0	2.0	1.7	1.50	0.17
27	Venezuela	1.0	1.7	2.0	1.3	1.0	1.7	2.0	1.5	1.46	0.08

# 1-Decimal Impact Analysis

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- Change #1 – Rounding country scores to 1-decimal place (versus 2-decimal places)
  - The impact of rounding the country scores to 1-decimal place is minimal. If anything, this change will help countries (i.e. by rounding a score of 1.96 to 2.0).
  - Based on the January 2005 Exposure Draft, there would not be any changes to the Permissible Equity Markets list.
- Change #2 – Using 1-decimal place scores for macro-factors and sub-factors (versus whole number scores).
  - Using 1-decimal place scores at the macro- and sub-factor levels does affect the Permissible Equity Markets list because doing so requires re-scoring each macro- and sub-factor score based on a more refined scale. This change can have either a positive or negative impact on a country depending on the specific factor.
  - Based on the January 2005 information, there would be changes to the Permissible Equity Markets list. The scores of Argentina, India, and Sri Lanka would drop below the 2.00 threshold, while the score of Russia would rise above the threshold.



# 1-Decimal Impact Analysis

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- Both Changes #1 and #2 – Scoring all countries, macro-factors, and sub-factors to 1-decimal place.
  - Combining both changes would also change the Permissible Equity Markets list. All in all, compared to the Permissible Equity Markets list based on the January 2005 Exposure Draft, Russia and Morocco would be added to the Permissible Equity Markets list, while Sri Lanka would be deleted.